

UNIVERSITY OF PENNSYLVANIA

MERGER MERCHANDISING
IN THE PACKAGED FOOD PRODUCTS
INDUSTRY

EDWIN K. SCHEMPF

A THESIS

IN ECONOMICS

PRESENTED TO THE FACULTY OF THE GRADUATE SCHOOL IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF DOCTOR OF PHILOSOPHY

PHILADELPHIA

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PREFACE

Economists conveniently divide the field of economics into production, involving exchange, distribution and consumption. Production is the developing of form place and time utilities or in the broader sense, simply the creation of utilities.

Although there is disagreement among students of marketing as to just what the field embraces, there is considerable agreement that marketing consists of those business activities involved in the flow of goods and services from production to consumption.¹ It is the creation of time and place utilities and the economist would consider marketing as part of production.

Merchandising is usually thought of as a more limited field of operation. Here again there is little agreement as to definition. We have chosen to use the term merchandising to denote all of a company's activities the purpose of which is to develop maximum consumer demand for that company's products. Another definition of merchandising states that "Merchandising is the adjustment of merchandise produced or offered for sale to customer demand—."

The puzzle of high marketing and merchandising costs is one of the most fascinating problems of present day industry. Why should these costs consume so much of the consumer's dollar? Why, for example, should it cost thirty cents to manufacture a certain article and cost fifty cents to transfer that article from the factory to the ultimate consumer? Production usually employs more persons than marketing but marketing salaries are higher. Why? These problems illustrate the importance of and partially explain the present day interest in the field.

Some of the factors which cause high marketing and merchandising costs are:

1. Machinery cannot be used to the extent that it is used in production.
2. Larger average wages and salaries are paid in marketing than in other branches of industrial activity.

¹ Definition of the American Marketing Society.

3. The services which consumers demand are increasing.
4. The small size of the average purchase.
5. The competitive wastes in advertising and selling.
6. The oftentimes lack of adequate research studies in the field and a consequent lack of scientific information.
7. The large number of middlemen.
8. Duplication by the various middlemen of marketing and merchandising functions.
9. Competitive efforts to build consumer demand for a given company's product.

Frequently marketing costs, though high, would be higher but for the fact that certain expenses are charged to production which should be charged to marketing. For example a leading manufacturer of locomotives charges the expense of demonstrating his locomotives to production.

The importance of merchandising can be grasped when once one realizes that mass production depends upon volume sales and volume sales for a specific company's products depends upon merchandising. From an individual company's viewpoint demand must be created.

Sales may be increased by one, several or all of the following methods: developing a new product, lowering the price, improving the product, or using new merchandising methods. Many American industries are using all of these methods. Management in the packaged food products industry recognizes the importance of merchandising and is spending increasing amounts of money in an attempt to increase the effectiveness of these activities.

It was because of a realization of the complexity of modern merchandising and its tremendous importance to both the modern industrial concern and to the consumer that this dissertation was undertaken.

The advent of mergers of packaged food products manufacturers in 1924, which mergers were organized primarily to secure merchandising advantages, constitutes one of the most recent developments in merchandising. Because of their unique objectives and merchandising methods, and potentialities for

increased economies and consumer benefits, these companies were selected as the subject matter for this study.

After a series of preliminary interviews with executives in the industry, teachers, research experts and the major adviser in charge of this research, we selected as the title of the dissertation "Merger Merchandising in the Packaged Food Products Industry."²

A period of general reading and observation followed the selection of the topic which ended with the selection and preparation of a preliminary statement of the problem. This statement was a rough guide to aid in classification and ordering of observations preparatory to the construction of a working outline.

Upon completion of the working outline two lines of investigation were begun, which investigations were conducted simultaneously throughout the academic year 1930-1931 and during the summer and fall of 1932. One line of investigation consisted of numerous personal interviews made with executives and administrators in all departments of the companies on which the dissertation was based. Another line of investigation consisted of a study of financial and operating data of these companies.

The data was collected during the summer and fall of 1931 and 1932. This involved interviews over a period of three and a half weeks in Chicago, Illinois, three days in Cincinnati, Ohio, five days in Cleveland, Ohio, eight weeks in New York City, three days in Pittsburgh, Pennsylvania, one week in various cities in central New York, three days in Duluth, Minnesota, one day in St. Paul, Minnesota, two days in Milwaukee, Wisconsin, two weeks in Philadelphia, Pennsylvania, one week in New England and two days in Wilmington, Delaware. The total number of interviews made for this collection of data was three hundred and fifty-two.

In personal interviews it was difficult to win the confidence of the one being interviewed. The approach could not be standardized. The interviews consisted of conversation regarding three factors; changing merchandising methods, financial data

² A merger is an amalgamation wherein one or more of the companies lose their corporate existence.

and the effect of changing merchandising methods on the consumer. Due to the confidential character of the information received, no direct quotations were permitted and no names of mergers could be disclosed.

In the fall of 1932 the thesis data was assembled and tabulated. The plan of the chapters was arranged, followed by the writing of the dissertation. In all about fifty additional personal interviews were made during this period which interviews were for the purpose of securing comparable data on questions which arose as a result of the tabulation.

The writer wishes to take this opportunity to express his appreciation to those business men and teachers who through their cooperation have made this study possible.

The writer is indebted to Mr. Fred L. Kraft, Mr. James Wolfe, and Mr. Cyril Howard of the Kraft Phoenix Cheese Corporation, Mr. Clarence Francis and Mr. Ralph Starr Butler of the General Food Corporation, Mr. John R. Whitaker of the American Stores Company, Mr. Franklin R. Cawl of Curtis-Martin Newspapers and to many other business executives too numerous to mention. The writer wishes to express his appreciation to Professor Herbert W. Hess and Professor J. Russell Daubman for their constructive suggestions and advice throughout the entire period of the study.

I

(A) PRESENTATION OF THE PROBLEM

The object of this study is to determine the merchandising status of mergers in the packaged food products industry. The study is an analysis of the merchandising methods of the four largest mergers which have been organized in the industry. For comparative purposes there is also an analysis of the merchandising methods of four independent manufacturers of packaged food products. The study includes an analysis of the effect of the merchandising activities of these corporations upon the status of the consumer of packaged food products.

The term merchandising as used in this study shall denote all of a company's activities, the purpose of which is to develop maximum consumer demand for the company's products. These merchandising activities are primarily for the purpose of increasing both sales and profits. Merchandising consists of the following functions:¹

¹ There is little agreement concerning definitions of the terms marketing and merchandising. This disagreement exists among teachers of business subjects, research groups, and business management. The following six of a group of definitions compiled by Fred W. Hofmann, Director of Markets, Greater Terre Haute Club, Terre Haute, Indiana, is illustrative:

"Marketing includes a series of processes, exclusive of manufacturing, whereby products and their ownership are transferred from the producer to the user or consumer at such times and places and in such quantity units as will be acceptable to the user or consumer."

"Marketing is the complex of processes involved in creating and satisfying a demand for economic goods."

"A comprehensive, and at the same time specific, definition of the term 'Marketing' is somewhat difficult to frame, yet perhaps we can convey our conception of the meaning of this term by saying that we take it to include all of the functions performed in accomplishing the distribution of commodities from the producer to the final consumer. Thus, it would include all the transportation of commodities to primary and ultimate markets, warehousing, financing and insurance as applied to distribution, the activities of all intermediary agencies engaged in distribution, etc."

"To me, Marketing is a combination of two concepts, one involving the function of Marketing as a scientific method and the other involving Marketing as an art. Therefore, I would say that Marketing is the science of coordinated control of various factors which enter into the sale, the preparation for shipment, and the delivery of goods from the producer to the consumer, all in the spirit of service to society."

1. Analysis and development of potential markets. This consists of an analysis of the product in relation to the consumer with a view either to improve the product, to develop new products or to develop new uses for products.

2. Analysis and development of channels of distribution for the purpose either of improving the existing channels of distribution or of creating new channels of distribution.

3. Analysis and use of such selling, sales promotion, and advertising as will result in maximum net sales, turnover and net profits.

"Marketing is that part of production that has to do with the distribution of the product. This function begins when the product leaves the place where it was produced and ends when the product reaches the final consumer. It may be interrupted by the process of manufacture."

" . . . I do not know of words more confusedly used at the present time than those of distribution, marketing, merchandising, advertising, salesmanship and publicity. . . . I shall await with a great deal of interest the compilation of definitions which you are to send. I would suggest as my own definitions up-to-date the following:

"Commercial or distributive activities under business organizations for profit embraces:

"Marketing definition—Commercial processes concerned with the distribution of the raw materials of production, the finished output of the factory, and agricultural products. In Marketing, the effort expended relates to quantity and quality or production with special attention to the above processes involved in creating channels of trade between maker or producer and consumer. This may mean raw products as coal, cotton, etc., onions, bonds or automobiles.

"Merchandising definition—The business interests engaged in distributing the various commodities among the consuming classes. Merchandising begins with responsibility to the consumer. Its effect is often to reorganize and change the existing channels of distribution. Merchandising in its largest aspect relates to such processes as tend to increase consumers' demand."

American Marketing Society, Report of the Committee on Definitions:

Marketing—Marketing includes those business activities involved in the flow of goods and services from production to consumption.

Merchandising—Merchandising is the adjustment of merchandise produced or offered for sale to customer demand. It involves the coordination of selling with production or buying for resale.

Comment of the committee: Merchandising is another term concerning which there exists a wide variety of opinions extending all the way from a definition which includes practically all the activities associated with Marketing to an extremely narrow and limited usage. After assembling the previously prepared definitions and soliciting advice from a number of members of the Association as well as several business houses, the majority of the committee agreed upon the above definition. To illustrate, it is felt that the merchandising activity involves primarily the selection of the product to be produced or stocked for sale and includes such detailed decisions as the size, appearance, form, dressing of the product (packaging, etc.), quantities to be bought or made, time of purchase or production, price lines to be carried or made, etc.

The modern factory system resulted from a series of inventions, which took place during the last half of the eighteenth and the first half of the nineteenth centuries, which inventions made possible the successful application of steam power to the manufacture of goods. From the beginning of the factory system to 1925, when the first of the four mergers was organized, manufacturers were primarily concerned with the application of machinery to the mass production of packaged food products. These products had low unit manufacturing and merchandising costs and could be sold at a low unit price to the ultimate consumer. Because of the greater attractiveness of these packaged food products as compared with bulk purchases, markets absorbed these new products as rapidly as they were developed and offered.² Consequently manufacturers concentrated on the production phases of the business and relied on sales agents, wholesalers and retailers to perform the merchandising functions. From the beginning of the packaged food products industry these three agencies developed the sale of their own and other non-nationally advertised brands of packaged food products which carried a greater margin of profit than the nationally advertised brands. They seemed unwilling to cooperate with the manufacturer in his merchandising efforts.

The refusal of wholesalers, sales agents and retailers to cooperate with the manufacturer in efforts to build increased consumer acceptance of his products was a major cause of the manufacturer's direct appeal to the consumers through the medium of advertising.³ Although most progressive national manufacturers commenced to use national advertising to help develop consumer acceptance for their products it would seem that even this did not secure the active cooperation of the middleman in the manufacturer's plans to obtain maximum net sales and net profits. The manufacturer had unsatisfactory control of his channels of distribution.⁴

² Converse, Paul D., "The Elements of Marketing," pp. 402-403. Prentice-Hall, Inc., N. Y.

³ Personal interviews with officials of the companies studied.

⁴ The term middleman will indicate throughout our study any functionary whose operations form a connecting link between the manufacturer and the ultimate consumer. Similarly, the term channel of distribution refers to the middlemen and not to their organizations or the physical handling of the products.

In 1859 a new channel of distribution, the chain-store, appeared in the industry whose success, while often detrimental to the manufacturer, soon accounted for a large share of the total sales of packaged food products. While the chain systems prospered the manufacturer suffered due to confidential rebates through the large cash purchases of national manufacturer's food products.⁵ Because of its use of aggressive merchandising methods by which it pushed the sale of its own brands of products the chain-store made more serious the manufacturer's inability to control his channels of distribution. From 1900 to 1925 chain-store systems grew rapidly.⁶

As recently as 1925 the principal factors in the packaged food products industry were the manufacturer, the grower's co-operative, the wholesaler, the independent retailer and the chain-store. Since 1925, however, principally because of the increased power of the chain-store companies new types of business organizations have been developed in the industry. This has resulted in an increased complexity of interests, objectives and methods. As a result the consumer is offered a greater variety of products today than at any time since the advent of the factory system. These new factors are: the voluntary chain-store, the wholesaler's merger, the manufacturer's merger and the consumer's cooperative.⁷

The four manufacturer's mergers which were studied have all been organized by means of an exchange of shares of stock but in some instances there was also a cash consideration. Produc-

⁵ The great Atlantic and Pacific Tea Company founded in 1859 was the first chain grocery company.

⁶ Prior to 1900 eight chain grocery companies had been organized, each of which had more than five stores. At the beginning of 1925 there were sixty-two such companies. See Whitaker, J. R., *The Organization of Chain Grocery Companies in relation to Scientific Merchandising*, p. 49.

⁷ The voluntary chain-store sometimes called the retailer's cooperative or cooperative chain-store is an organization of independent retailers. It is organized either by a wholesaler or independent retailer who acts as a central buying agency and was first organized as an attempt to secure the advantages of mass buying. Some of the progressive voluntary chain companies are now beginning to have centralized planning of merchandising activities. Notable among these companies are the Frankford Grocery Company of Philadelphia, The Independent Grocers Alliance, a mid-west company, The Independent Retail Grocers of Maryland, The Economy stores of northeastern Pennsylvania and the Merit stores of central Pennsylvania.

tion has not been centralized but the merger management has developed a merchandising program and new merchandising organizations. These mergers are the first attempt on the part of packaged food products manufacturers to secure control of the channels of distribution and consequently perform the entire threefold function of merchandising,⁸ independent of the dictates of the middleman. Administrative officers of the four mergers stated that their mergers are dominated by managements which have a merchandising background. Since neither the wholesaler-independent retailer, or the chain-store channel of distribution gives these mergers merchandising control, the plan is to contact the independent retailer direct, through an efficient sales-force and an improved system of physical distribution of the products. The immediate objective is to sell as large an amount of the total sales of the merger through the independent retailer as possible while continuing to sell to the chain-store.

The ultimate objective of the mergers is threefold:⁹

1. To enable each of the merger's products to secure a leading position in the industry.
2. To secure merchandising control of the entire channel of distribution from the manufacturer to the ultimate consumer in relation to competition and profits.¹⁰
3. To secure maximum net sales,¹¹ turnover and net profits

Two groups of interests are responsible for mergers in the packaged food products industry. Certain mergers have been organized, by the management in control of the parent company, for greater profits and to secure merchandising control of the channels of distribution. Other mergers have been organized by financial interests who were tempted by the profit implications of these mergers. In either instance those organizing the merger sought to purchase and merge companies on the following basis:

⁸ See page 1.

⁹ As a result of our interviews we are of the opinion that all merchandising objectives of mergers can be included under this threefold objective.

¹⁰ Administrative officers of all four mergers emphatically stated that their corporations had not and most probably would not attempt either retail price control or retail store ownership and management.

¹¹ By net sales is meant gross sales less allowances to customers, cash discounts taken by customers and any other discounts to customers.

1. The purchase of companies which had a continued record of satisfactory earnings.

2. The purchase of companies whose products were well established in the minds of many consumers through advertising.

3. The purchase of companies whose products were non-competing with those sold by the parent company.

The merchandising management of both these types of companies believed that multiple-selling¹² could be effectively adapted to the entire group of products belonging to the merger. In certain instances the purchase of companies was not effected until the merger salesforce had demonstrated its capacity to increase sales on each product of the company to be purchased, while maintaining increases in the sales of the merger's products. The two following examples are illustrative in the first instance:

A packaged food products manufacturer, who had profitably built national sales on four cereal foods, contemplated the purchase of a company which had national sales of a dessert product. A test campaign was instigated in order to determine whether the salesmen of the cereal manufacturer's products could increase the sales of the dessert product and at the same time increase sales of the cereal products. City, suburban and rural sales territories, of both high and low sale's costs, were selected in representative sections of the country. Through increased sales efforts the better salesmen of those already stationed in these territories demonstrated their ability to increase the sale both of the cereal food products and of the dessert product. During the period of the test campaign the national sales of both companies increased. Those salesmen who could not maintain satisfactory sales increases of both companies' products were transferred to specialty salesforces or else discharged.

In the second instance a packaged food products manufacturer who had profitably built national sales of packaged process cheeses contemplated the purchase of a company which had built sectional sales of process cheeses in territories where

¹² Multiple-selling is where one salesman sells several products during one call.

the national process cheese manufacturer's sales were not well established. A test campaign was instigated in order to determine whether the salesmen of the national company could both increase the sales of the sectional company's products in the national market and at the same time secure sales increases of the national products. Territories were selected on the same basis as in the instance of the cereal food products manufacturer and the better salesmen already stationed in these territories demonstrated their ability to increase the sales of both companies' products. In many sections the sales of the sectional company's products were small since here the products were being introduced for the first time. During the period of the test campaign both companies' total sales increased. Those salesmen who could not maintain satisfactory sales increases of both companies' products were transferred to specialty salesforces or else discharged.

As is the case with all new undertakings the mergers have brought forth both approval and criticism from a number of sources. Those approving the mergers emphasize the favorable earnings record of the mergers, the success of multiple-selling, the rapid developing through adequate research of new products and new uses, and the conservative financing of the merchandising administrators in control of the mergers.¹³ Those who criticize the mergers claim that these advantages are more apparent than real. They claim that the success of multiple-selling is still to be demonstrated, that independent companies have developed more new products and new uses than have the mergers and that the financing of the mergers has not been conservative.¹⁴ They maintain, moreover, that when mergers in the industry have been organized by financial interests there is a threefold unfavorable aspect to such promotional activities:

1. It is charged that the chief concern of these financial groups is for immediate profits. These profits are said to arise from the promotion of the new organization and also from the immediate

¹³ The term merchandising administrator is used throughout this study to indicate the person in control of and responsible for the entire merchandising effort of the company.

¹⁴ In our interviews these two points of view became quite pronounced.

rise in the market price of the securities of companies merged with an efficient concern.

2. It is charged that the merger point of view of these financial interests has been lacking in complete knowledge of, or oblivious to, the principles of merchandising.

3. It is charged that many of those managing the merchandising of this type of merger are the tools of these financial interests and are wholly unfitted for the planning and the directing of merchandising efforts.¹⁵

As a result of our study it is hoped that certain observations will be possible with regard to these two conflicting points of view and with regard to the serious charges being made against the financial interests reputed to be in control of certain of these mergers.

Certain basic forces have begun to affect our consumption of foods since the close of the World War, which forces have made it possible to merchandise new types and conceptions of food products. An important index of the merchandising status of mergers in the packaged food products industry is the extent to which those in control of these companies have succeeded in their efforts to build volume sales on these new types of products. These basic shifts in consumption are:

1. A reduction in the consumption of meat
2. A reduction in the consumption of cereal foods
3. An increase in the consumption of fresh fruits and fresh vegetables
4. An increase in the consumption of dairy foods
5. An increase in the consumption of packaged foods

These basic shifts in consumption are indicated in the following government tables which appear in Chapter I of *Recent Economic Changes*:¹⁶

¹⁵ These judgments were secured by personal interviews with competitors of the mergers, bankers, executives in other industries and teachers of business subjects. Because of the serious nature of these charges and a lack of absolute proof, it is inadvisable to disclose the exact sources of these judgments.

¹⁶ *Recent Economic Changes*, McGraw Hill Book Company, Preface, Introduction and Chapter I.

ANNUAL PER CAPITA CONSUMPTION OF MEAT

(POUNDS)

1900.....	156.0	1915.....	137.0
1905.....	153.7	1920.....	150.0
1910.....	153.0	1925.....	156.0
1927.....	153.0		

AVERAGE ANNUAL PER CAPITA CONSUMPTION OF WHEAT
AND CORN MEAL FLOUR

	BARRELS		CALORIES PER DAY
	WHEAT	CORN	BOTH WHEAT AND CORN TOGETHER
1889.....	.597	1.142	1537
1904.....	.390	1.133	1341
1909.....	.295	1.077	1210
1914.....	.210	1.036	1099
1919.....	.129	.893	901
1925.....	.115	.902	896

ACREAGE OF NINETEEN COMMERCIAL TRUCK CROPS
IN ACRES PLANTED

1919.....	1,586	1924.....	2,373
1920.....	1,697	1925.....	2,548
1921.....	1,436	1926.....	2,461
1922.....	1,943	1927.....	2,435
1923.....	2,014	1928.....	2,711

POULTRY AND EGGS
MILLIONS OF POUNDS

	NEW YORK	CHICAGO	BOSTON	PHILA.	TOTAL
1920.....	101	57	34	21	214
1925.....	170	72	46	29	318
1928.....					349

MILK AND MILK PRODUCTS
MILLIONS OF POUNDS

	BUTTER	CHEESE	CONDENSED AND EVAP- ORATED MILK	ICE CREAM	OTHER PRODUCTS
1920.....	1539	362	1578	260	198
1923.....	1862	399	1775	295	242
1926.....	2067	427	1734	325	311

FRUIT
CAR LOAD SHIPMENTS

	APPLES	PEACHES	PEARS	CANTA- LOUPES	STRAW- BERRIES
1920.....	116,000	28,000	15,000	22,000	7,000
1923.....	138,000	33,000	18,000	25,000	17,000
1926.....	133,000	58,000	25,000	33,000	13,000
1928.....	93,000	41,000	.....	38,000	17,000

The immediate causes¹⁷ which affected these shifts in the consumption of food were:

1. The increased amount of leisure time
2. The increased acceptance of health concepts and dieting
3. The increased use of the automobile
4. The trend from rural to city living
5. The trend from city to suburban living
6. The apartment house, the steam-heated office building and the steam-heated factory
7. The lack of exercise
8. The increase in aesthetic standards in food consumption

The increased efficiency of machinery, the eight-hour day, the five-and-a-half-day week and in some instances the five-day week all have contributed to an increase in leisure time. The factory has taken over much of the work of the kitchen and this gives the housewife more leisure time. With more leisure time and less muscular work there is less need for a consumption of meats and cereals, which are energy producing foods. There is a corresponding increased demand for fresh fruits, fresh vegetables and dairy foods, most of which have less calories per unit of weight than do meats and cereals. Progressive food products manufacturers, who use research to measure consumer reaction to their products, were quick to develop new products in accord with these changes.¹⁸

Health concepts and dieting were brought into vogue. There

¹⁷ *Recent Economic Changes*, McGraw Hill Book Company, Preface, Introduction and Chapter I.

¹⁸ *Recent Economic Changes*, McGraw Hill Book Company, Preface, Introduction, Chapter I.

are probably two causes for the increased popularity of healthful eating: the need of the city consumer to adjust his eating habits to his city environment, and the merchandising of foods on the basis of health.

The automobile has probably been an indirect cause of the increased popularity of packaged food products. It is probably as important as a social force as it is as a means of transportation. Possession of automobiles has enabled many thousands of people to live in suburban and rural areas since it shortens the time necessary to travel to and from work. Living is more healthy in these outlying districts. There is more travel. The automobile also probably causes increased restlessness and a desire for new products. Many of these new products, including packaged food products, are first seen when traveling in automobiles. Moreover, the automobile truck delivery has enabled quick weekly and bi-weekly store-door and house-door delivery of packaged food products.¹⁹

Moreover, living in cities or suburbs, where one commutes in steam-heated trains to work in steam-heated office buildings or factories, is not conducive to an increased consumption of energy producing foods.

One of the basic factors which have caused these five shifts in our consumption of food is progressive business management. It is this group which has in large part put the immediate causes of our shifts in food consumption into operation. Management in its struggle for maximum profits developed the factory system and the large corporation. The factories were located at strategic points relative to manufacturing and transportation. Cities grew up around the factories. A race for lower production and merchandising costs followed. The eight immediate factors caused shifts in the consumption of foods and also a decrease in the consumption of certain specific foods. The changing demands for foods which these factors stimulated together with research studies of markets showed management what new products to produce.

These research studies were in some instances an attempt

¹⁹ *Recent Economic Changes*, McGraw Hill Book Company, Chapter I, also *Principles of Transportation*, Johnson, Huebner and Wilson, Chapter I.

to determine what the market had already come to accept. In most instances, however, the objective of such studies was to determine what the consumer really wanted by way of new food products. The phrase, "*Selling Mr. and Mrs. Consumer*," has a scientific bearing upon merchandising. Careful analysis of the consumer often discloses that certain food products are accepted and tolerated but that the consumer is not at all satisfied with the product. His purchase may be in terms of habit. With the basic shifts in consumption already in operation merchandising research has as its task the discovery of new food products and food uses which Mr. and Mrs. Consumer will desire the moment said products and uses are presented. It is in this type of research that the mergers have excelled.

In Chapter V we have made an analysis of the new products which those in charge of mergers have attempted to merchandise in keeping with the operation of the aforementioned eight factors.

(B) METHOD OF PROCEDURE

The scope of this study has been determined as follows:

1. With one exception we have confined the study to the packaged food products industry.²⁰ By packaged food products we mean all foods, whether beverages, cereals, fruits, canned goods, vegetables, ingredients, sea foods or meats, which are sold in package form.

2. We have selected as the basis for the study the four largest mergers and four independent manufacturers in the industry.

3. We have further limited our study to an analysis of the merchandising methods and expenses of the companies selected, with emphasis upon selling, sales promotion, advertising, research and administration.

4. We have made an analysis of the status of the consumer of packaged food products as affected by the merchandising activities of the aforementioned companies.

We have designated the four mergers as Merger A, Merger B, Merger C and Merger D.

²⁰ This exception is Company G which manufactures soaps and cleansers.

We have designated the four independent companies as Company E, Company F, Company G and Company H.

The method of procedure was first to study the merchandising methods of the four mergers. The period covered by the analysis is from 1925, when the first of these mergers was organized, to 1931.

For purposes of comparison an analysis was also made of the merchandising methods of four independent packaged food products manufacturers. In each instance where a merger and an independent manufacturer were compared, the independent company was one which had approximately the same volume of sales as that of the parent company of the merger, the year that the merger was organized. The line of products of the independent companies are not identical with those of the mergers but the merchandising problems of the independent companies are similar and the independent companies operate in the same territories as the mergers with which they are contrasted. In our judgment comparable sales volume was a more important index in the choice of what independent companies to include in the study than identity of products, the more so since all these products come under our definition of a packaged food product and have approximate consumer acceptance.

The study includes a comparison of percentage increases or decreases in newspaper and magazine advertising expenses, total merchandising expenses, net profits, net sales, surplus, capitalization, earnings per share and dividends for the four mergers and the four independent companies. The comparison is of 1925 and 1930.

The term total merchandising expenses includes the following expenses: salesforce and brokerage expense, sales promotion and advertising expense, shipping, transportation, warehousing and delivery expense, credit and collection expense, that part of general office expense which can be charged against merchandising work in the field and administration expense.²¹ Some

²¹ This classification of expenses is in general agreement with the classification of those expenses included under *Total Marketing Expenses* in the Harvard Bureau of Business Research study "Marketing Expenses of Grocer Manufacturers." Bulletins 69 and 77.

of the companies studied allocate administrative expense among the operating departments. Such an allocation is purely arbitrary since an administrative officer cannot charge his time on the basis of whether he is working on a production problem or a sales problem. Administrative policies are not solved departmentally. Moreover, the major problems of these eight companies are merchandising problems and in most instances the administrators are primarily concerned with the merchandising phase of their business. It seems wise, therefore, to use the term total merchandising expenses, in its most broad sense, to include administrative expense.

There is also an analysis of the status of the consumer of packaged food products as affected by the merchandising activities of the aforementioned companies.

When conclusions are made on the basis of these analyses it is necessary to guard against a too absolute interpretation of the data. There are certain forces operative, notably new merchandising methods and new products which have no statistical counterpart in net profits. These new methods, notably multiple-selling, and new products, of which frosted foods are the most spectacular, now represent enormous out of pocket costs which have yet to contribute their full effect to the earnings of the mergers. They constitute a speculative element in the future of these companies.

There are additional factors which make it necessary to guard against an absolute interpretation of the norm of merchandising efficiency. These factors are:

1. The unequal periods during which the mergers have operated.
2. The purchase of companies and the merging of operations and accounts at varying instances after the merger was organized.
3. The fact that many purchased companies kept no detailed record of merchandising expenses.
4. The lack in uniformity of accounting practice among the companies purchased by the mergers.
5. The fact that merchandising expenses as a percentage of dollar sales are not always indicative of merchandising efficiency.

With regard to unequal periods of operation, although the norm of merchandising efficiency shows a decided agreement amongst the four mergers, the unequal periods during which these mergers have operated is a factor necessitating caution against a too absolute interpretation. In the instance of methods, comparisons of mergers which have not operated the entire period with those which have operated the entire period should aid in predicting the probable future of the younger mergers and also indicate whether certain merchandising methods will be adopted.

A comparison of the merchandising expenses of mergers with their constituent companies while independently operated is impossible since many of these purchased companies did not keep a detailed account of merchandising expenses. A common experience of those organizing the merger was to find that the purchased company kept a record of total advertising expenses but did not know how much was spent on various advertising media. Advertising seemed to be a sort of miscellaneous account where costs which might affect the showing of other departments of the business were concealed. What is necessary for a detailed comparison of merchandising expenses between two companies is to be certain that one is comparing expenses which represent the performing of like functions. Because of the variations in accounting methods it is usually impossible for the management of a merger to find out what the expenses of an independent company are for performing like merchandising functions to those of the merger.²²

In addition to a lack of detailed accounts of merchandising expenses for constituent companies there was no uniformity of accounting terminology or practice among the concerns purchased. One purchased company included sales promotion as a selling expense while another company included sales promotion as an advertising expense. If neither company kept a detailed record of selling and advertising expenses comparisons are impossible. Since all four of the mergers had this sort of experience exact comparisons between the various specific

²² Interviews with officials of the eight companies studied.

merchandising expenses of any one of these mergers and its constituent companies are impossible.

Merchandising expenses expressed as a percentage of dollar sales are not always indicative of merchandising efficiency.²³ In 1930 the total net sales of each merger expressed in dollars were lower than in 1929 chiefly because of a general lowering in the price level. One of these mergers actually increased its volume of products sold, another merger maintained its volume at the 1929 level and two mergers had but a slight decrease in volume sales. Merchandising expenses as a group were not lowered because of this general lowering of the price level and for a majority of the companies merchandising expenses as a percentage of dollar sales actually increased since (a) costs of advertising space, radio time, etc., were not lowered, and (b) because during a depression the merchandising management of these mergers spend greater amounts for merchandising in preparation for improving business conditions. If the merger is spending more money for merchandising activities in proportion to net sales, during a period of falling prices than during a period of rising prices it is probably using more efficient methods judged from the long run sales results, than a concern which curtails merchandising expenses during a period of falling prices, but the ratio of merchandising expenses expressed in dollars to net sales expressed in dollars would indicate the reverse of this. The temptation is to reduce dollar merchandising expenses along with other costs during a period of falling prices since the company's revenue is being reduced. However efficient merchandising would seem to indicate that other things being equal it is a good policy to spend more money on merchandising operations at such a time in order to develop greater demand for and sale of the products in anticipation of a return period of rising prices. In other instances a company's revenues may be so seriously reduced that rather than cut into surplus too drastically the administration decides to reduce merchandising expenses.

The more satisfactory index of merchandising expenses is

²³ See page 1, paragraph 2.

the expense per unit of volume sales by products or groups of products. The merchandising management of the companies studied hesitated to supply merchandising expense figures by products since volume expense figures by products is competitive information. Such a published figure could easily be recognized by competitors as belonging to the company which supplied the figure. Moreover, certain of these companies publish total volume sales and were merchandising figures by volume released competitors could ascertain all the weak points in the company's merchandising program and plan their attack accordingly. The policy of the management in the companies studied is against releasing merchandising expense figures by volume of products sold. The explanations most often offered were that groups of investigators representing security holders and the Government would misinterpret this information, and that such information would be an announcement to all competitors of merchandising strength or weakness.

Finally, the merging of operations and accounts at varying instances, the lack of comparable and complete records and the ratio of dollar merchandising expenses to dollar net sales do not have any bearing upon the comparative analysis of methods approach to the study. Although comparative studies of merchandising expenses of the various companies expressed on the basis of volume sales would increase the accuracy of our norm of merchandising expenses, such a limitation does not preclude the possibility of showing and measuring the effectiveness of the merchandising activities of the merger in the packaged food products industry.

II

AN ANALYSIS OF THE MERCHANDISING METHODS OF FOUR
MERGERS AND FOUR INDEPENDENT MANUFACTURERS
OF PACKAGED FOOD PRODUCTSA. *Selling Organization and Methods*

An analysis of the merchandising methods of four mergers, as compared with the merchandising methods of four competing manufacturers, is presented in chapters II, III and IV of this study. These analyses show the technique by means of which these companies have made progress toward achieving their merchandising objectives while fulfilling the three functions of merchandising.¹ Chapter IV contains a presentation of the merchandising expenses of these companies.

The arrangement of material in these chapters is for the purpose of clarity of presentation, rather than to suggest that these merchandising activities are performed independent of each other.

Merger A

The parent company of Merger A was originally a manufacturing and wholesale cheese business. The company purchased bulk cheese from local buying companies in Wisconsin² and sold ninety per cent of this cheese to produce houses and packing companies. The remaining ten per cent of the sales were to retailers in the metropolitan area in which the company was located.

In 1924 the parent company perfected what has come to be known as process cheese. Process cheese is made by grinding bulk cheeses and recooking the cheeses according to formulae. Bulk cheeses dry out and are too large for home consumption. Process cheese can be cut into pound or fractional pound sizes

¹ *Objectives*, p. 7. *Functions of Merchandising*, pp. 1, 2, and 3.

² These companies had large concentration cellars where the cheese receives special curing. Cheese, butter and other produce were purchased from local factories and creameries.

and packaged, without danger that the product will dry out.³ The President of the company stated that the merger was organized in order to build national sales of packaged process and pasteurized cheese, the object of which is to secure increased profits.⁴ Rather than depend upon outside sources of supply the company purchased numerous producing and wholesale cheese companies in Wisconsin, New York and Ohio. These companies were purchased during 1923 and 1924 and a merger of these companies was effected in 1924. As a result of the merger the company was of a size and capital structure such as to make feasible a national merchandising program.

Other companies soon developed similar methods of process cheese manufacture and in order to secure a dominant position in the industry Merger A purchased two of these companies, each of which had volume sales of process cheese in territories where Merger A was not well established. These two purchases concluded the purchase of companies by Merger A.

Immediately upon completion of the merger the company established sectional plants and commenced a merchandising program to build nation-wide sales of its products. The plan was to contact the retailer direct, through a large salesforce and through a national system of motor truck distribution of the products. Ten million dollars were spent for national advertising over a period of six years. New products were developed of a type suitable to this merchandising program and capable of winning consumer acceptance.

Volume sales direct to the retailer would not be possible unless the retailer could sell these products to the ultimate consumer. Therefore Merger A commenced national advertising at the start of its merchandising program, and began to train salesmen and truck deliverymen in methods which were to aid the retailer sell the company's products. The retailer was to have instruction in the use of displays and store demonstrations which enabled

³ See page 137 for a discussion of the consumer and process cheese.

⁴ Successful merchandising in turn increases production and often makes possible increased profits.

him to connect his merchandising activities with the merger national advertising.⁵

The merchandising administration of Merger A found that forty daily calls were necessary if the direct-to-retailer delivery truck was to make a suitable profit and since the average time necessary for a satisfactory sale is one-half hour,⁶ the administration believed that the truck operator could not undertake the selling and sales promotion functions for the large accounts if he hoped to meet expenses. A study of the work necessary to secure new retail accounts further substantiated the administration's judgment in this regard, and it was decided not to merge the salesforce and the delivery men.

This separation does not imply that the delivery man does no selling but it does imply that the delivery man is primarily an order taker who calls on twenty to forty small customers daily and thereby secures volume sales. The very fact that he has a large variety of products provides greater opportunity for a worthwhile sale at each call. The merchandising administration of Merger A believed that the profit incentive of the independent truck owner, plus the saving to the merger in not owning and operating a national system of delivery trucks, would give volume sales at low sales cost and at low delivery cost.⁷ The use of independent truck distributors was first tried in key cities and gradually expanded until today Merger A has contracts with over twenty-five hundred independent truck distributors, giving weekly delivery to retailers in all the major market areas of the United States. These truck men handle the entire line of products. In 1930 seventy-five per cent of the sales to chain-stores and ninety per cent of the sales to independent retailers were delivered by these twenty-five hundred distributors.⁸

⁵ See *Sales Promotion and Advertising*, pages 64-65.

⁶ The merchandising administrators in the packaged food products industry whom we interviewed were in general agreement as to this time factor.

⁷ In sparsely settled territories retailers receive the products through purchases from wholesalers.

⁸ Three delivery trucks usually give the maximum net profit to the independent truck owner. A fourth truck usually just pays the cost of operation including the driver's salary. Therefore the profit incentive would be greater when two distributors each with three trucks operated in a territory than when one distributor operated six trucks in the territory.

Merger A has a salesforce to sell the large retail accounts and another salesforce to sell the wholesale accounts. The wholesalers act as local sales representatives for the larger retail accounts and orders secured by the retail salesforce are turned over to the wholesalers. In addition the wholesalers have a sales promotion group to contact retailers in their districts. These wholesalers try to keep their retail outlets as compact as possible.

A separate group of salesmen sell the chain-store and voluntary chain-store systems. In certain instances it is claimed that these salesmen have a free hand in carrying on all negotiations and fixing the price.⁹

All of the manufacturer's salesforces are engaged in multiple-selling but none of these groups operate trucks.

In the instance of the larger accounts multiple-selling was proving very successful in that the salesforces were able to maintain volume not only on the established process products but at the same time was able to build volume sales on new varieties of process cheese. Merger A next considered the advisability of selling products other than process cheese. Experiments showed that mayonnaise, which needs frequent delivery to insure freshness, would require very little additional equipment for its manufacture. Its inclusion would permit a more efficient use of storage, of manufacturing and of delivery equipment. Multiple-selling proved successful in that volume sales were soon secured on mayonnaise, without causing any decline in the sales of process cheeses. Management found that independent truck delivery direct to the retailer cut the cost of delivery in half as compared with the wholesaler-retailer method. This low cost was now secured for mayonnaise. In 1930 ninety-five per cent of the merger's sales of mayonnaise were delivered by these independent distributors.

The next step in the program of the merchandising manage-

⁹ This information was secured from an independent merchandising expert who is at present engaged in a study of Merger A's merchandising set-up in order to determine what economies and efficiencies can be secured.

ment¹⁰ of Merger A was an analysis of other kinds of products for which potential markets might be assured. This study showed that our national taste for cheese had been augmented by an increased use of salads and that the consumer often purchased cheese, salad dressing, mustard, mayonnaise and pickle relish at the same time. With the exception of cheese the consumer accepted any brand of these products which the retailer chose to sell.

As a result of this potential market analysis Merger A developed a sandwich spread, thousand island dressing, malted milk, French dressing and two special sandwich spreads which have cheese for their principal ingredient. These new products were introduced sectionally at a rate such as not to jeopardize the sales of established products. Because of sectional preferences for brand names many of these new products were introduced and sold under the brands of the purchased companies as well as under the brand names of the merger. Merger A has since retired some of these brands in keeping with its policy of retiring the brands of purchased companies in favor of its own brands. This, however, is a slow process due to the time required to transfer consumer good will from one of these purchased brands to the brand of the merger.

The packaged food products of Merger A at present number eighty-three and include process and pasteurized cheeses, mayonnaise and mayonnaise products, malted milk, salad dressings and imported cheeses sold in portions. The bulk products number fifty-four and include foreign type cheeses manufactured in the United States and imported cheeses from Holland, Italy, France, Canada, Germany and England. The packaged food products are all branded and constitute approximately eighty per cent of the merger's total sales. These products are the chief source of the company's profits. The bulk products are not branded except when sold to certain produce

¹⁰ This term is used interchangeably with Merchandising Administrator. Those in charge of the execution of the administration's orders, and usually at the head of a department, are herein designated executives. Unfortunately the term executive is used in every-day language to mean either executive or administrator.

houses and packing companies, in which instances they bear the brand of the purchasing company.

In addition to a merchandising program for the purpose of building more sales direct to the independent retailer, Merger A continues to sell the voluntary chain-store companies, chain-store companies, wholesalers, produce houses and packing houses. According to the officials interviewed, these agencies all pay the same prices for Merger A's products.

Merger B

Merger B originated as a holding and operating company in the dairy industry. The management gradually purchased control of companies which sold dairy products and in 1928 organized four operating companies. One operating company consisted of a merger of all companies purchased which manufactured packaged food products, another operating company consisted of a merger of ice-cream plants, a third a merger of condensed milk companies and the fourth operating company was a merger of dairy products manufacturing units. Early in 1929 the management stopped the purchase and the merger of additional companies.

One of these operating companies was supposedly a grouping of all manufactured products, though the management's definition of a manufactured product is rather difficult to determine. The real basis of the merger was the similarity of their merchandising problems, particularly the problem of control of the channels of distribution. In this operating company, which we have designated Merger B, there has been a merging of merchandising operations, whereas the ice-cream, dairy and condensed milk operating companies have only merged administrative activities, accounts and purchases of supplies. Merger B has merged the merchandising, administrative, financial, accounting, credit and collection functions, but manufacturing activities are still carried on at the plants of the purchased companies. Two of the products of the merger had national sales prior to the formation of the merger and the remaining products had sectional sales.

Immediately upon completion of the original merger of com-

panies, the merchandising management of Merger B commenced a merchandising program to give each of the company's products a leading position in the industry. Delivery was direct to the wholesalers, chain-stores, and voluntary chain-stores, in carload shipments.

Merger B still sells through the wholesaler and does not attempt to sell the independent retailer. However, missionary salesmen which the management terms provision men call on the independent retailer in a sales promotion capacity.¹¹ Orders are filled through the wholesaler but the promotional efforts of the merger are designed to build a greater per cent of its total sales through the independent retailer and thus secure control of the channels for distribution. The management is in difficulty because the wholesalers and chains, whenever possible, substitute other products.

This merger has not developed as many new products as have the other three mergers included in this study, but has concentrated on the development of new uses for its products. Independent retailers are instructed in these new uses by the division men. These retailers are taught how to increase their sales of the products by the use of displays and demonstrations which get the new use across to the ultimate consumer. The regular salesforce of the merger not only sell but also train the wholesaler's salesmen, and in certain instances train the sales clerks of chain-store companies in these new uses. The provision men concentrate on sales promotion work with the retailers. This activity is waste effort if the middlemen choose to substitute one of their private brands.

Merger B absorbed the regular salesman of the purchased companies either into the merger salesforce or the provision group, whenever the salesman could demonstrate his ability to produce results. The merchandising administration has since increased the size of its salesforce and provision group in order to develop sales territories more intensively.¹² At present the Merger has national sales of its leading products through one

¹¹ See Sales Promotion and Advertising, pages 66 to 68 inclusive.

¹² Traveling expenses are reduced in sparsely settled areas by having the provision men call on wholesalers to take orders and do promotional work.

hundred and fifty thousand chain-store outlets and four hundred thousand independent retailer outlets.

Merger B, in common with the other three mergers included in this study, introduced multiple-selling and this has been an important source of increased sales efficiency. The principal saving has been in the reduction of waste time and an increase in the size of the average order. Studies were made in certain test areas and as a result the salesmen were instructed to spend at least one-half hour on each call and make six to eight daily calls. A half-hour call would enable the salesmen to actually sell six or eight products. This plan resulted in a reduction over the old method of approximately twenty-five per cent in the number of daily calls but in many instances resulted in a fifty per cent increase in the size of the sale.

The merchandising administration of Merger B is at present striving to complete a realignment of sales territories in keeping with the new policy of six or eight daily calls per salesman. So far as we could ascertain few studies of potential markets, or development of new products are under way although the company continues to use advertising, selling and sales promotion to increase the sale of its products. The merger is continuing its merchandising policy of developing new uses for many of its products. These new uses have resulted in sales increases but several merchandising executives expressed the opinion that the company had gone about as far in this direction as was feasible, and would soon have to develop new products or purchase companies with products which would augment the line.

Merger C

The parent company of Merger C was engaged in the sale of quality packaged food products. In 1925 the company had a national sale of four products and a sizeable cash surplus. The management, in common with the managements of other food products manufacturers, did not have satisfactory merchandising control of its channels of distribution. The company had seasonal fluctuations in sales, which was a factor influencing the organization of the merger. Mergers A and B experienced season sales fluctuations but they were not extensive enough to

be a problem and therefore were not a factor in the organizing of these mergers.

The merchandising executives of the parent company secured control of the administration of the entire company, and immediately proceeded (1925) to purchase companies producing packaged food products, in keeping with the aforementioned threefold merchandising objective.¹³

Whereas the merchandising management of Mergers A and B purchased companies and then perfected their merchandising programs and organizations, the management of Merger C purchased companies only when such purchases were proven to benefit the merchandising of the merger in terms of the threefold objective of merchandising. In the instance of Merger C a merchandising program was developed at the same time that new companies were being purchased. This merchandising program, together with the methods used to secure increased sales, turnover and profits, is described on pages 40 to 46 and 70 to 73 inclusive of this study.

During the years 1925, 1926, 1927, 1928 and 1929 Merger C purchased thirteen companies which manufactured packaged food products. These purchases of companies were governed by the following policies:

(a) Purchase of companies whose products had different uses from those of the parent company. This is the only merger which attempts to have a product for every kitchen use.

(b) Purchase of companies whose products were well established through national and sectional advertising.

(c) Payment for all companies must come from surplus or through an exchange of stock. Surplus must not be endangered. The purchased company must be able to earn the usual dividends on the shares of parent company stock given in purchase.

(d) Purchase of companies not to be effected until the merger salesforce has demonstrated its ability to sell the products of the company in addition to multiple-selling of the merger's products.¹⁴

Merger A was organized to obtain national sales of process

¹³ See page 7.

¹⁴ See footnote 12, page 8, for a definition of multiple-selling. The test campaign method used by Merger C is described on page 9.

cheese by a company which prior to that date had sectional sales. Merger B was organized primarily to secure control of the channels of distribution. Neither Merger A nor Merger B purchased companies whose products had different uses from those of the parent company, nor did they always purchase companies whose products were nationally or sectionally advertised. Merger A purchased companies for cash while Mergers B and C made payment for purchased companies through exchange of stock. So far as we could ascertain only Merger C made certain that the purchased company could earn the usual dividends on the shares of parent company stock given in purchase. Mergers A, B and C used test campaigns to prove the feasibility of multiple-selling of the merger's products.

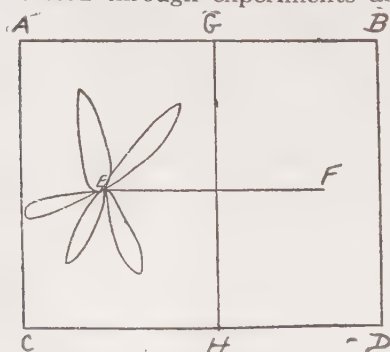
The parent company of the merger was earning nineteen per cent on its capitalization in 1925 and the bankers were paying the company four per cent for the use of its surplus. A company was found whose sales volume was approximately the same as that of the parent company, but which had peak sales the months when the parent company had low sales. The salesmen of the parent company demonstrated their ability to sell the products of both companies by the use of multiple-selling and the purchase was consummated. At the conclusion of this purchase the salesforce of the merger was organized as a separate selling company with its own president and other administrative officers. We shall call this selling Company C1. After similar tests of the extent to which C1 salesmen could use multiple-selling, two other companies were purchased. One of these companies sold a nationally advertised ingredient product used in cooking and one sold a nationally advertised dessert.

Selling company C1 increased the sales of all the products of the four companies which made up Merger C (1926). The administration next purchased two other companies which sold nationally merchandised products used in cooking and organized another subsidiary selling company, C2. Selling company C2 was organized because the merchandising management did not know just how many packaged food products a salesman could successfully sell and did not wish to endanger the splendid multiple-selling record of C1.

Companies C1 and C2 absorbed sixty per cent of the salesmen of the purchased companies. This sixty per cent represents those salesmen who could produce volume sales under the multiple-selling arrangements of the selling companies. Both of these selling companies had approximately two hundred sixty-five salesmen and both companies were selling approximately the same volume and number of products.

Experiments showed that C2 could maintain its sales in certain territories with fewer salesmen, and again there was a reduction in salesmen. The poor producers were let go. Meanwhile Merger C continued to purchase companies and C2 sold their products. Merger C now organized a third subsidiary selling company, C3. In 1929, certain salesmen were given the entire retail line of seventeen products and so successful was this experiment that C1, C2 and C3 were merged. We shall call this merged selling Company, Cs.

The first step in the merchandising program of Merger C was to increase the size of the salesman's territory preparatory to the introduction of merchandising designed to increase still further the efficiency of multiple-selling. The increase in territories was effected through experiments as follows:



Under the old system ABCD was covered by three salesmen one of whom traveled the distance EF to sell an account at E. As an experiment this salesman was to limit his selling to territory AGCH. The ovals radiating from E represent his routes which enabled him to return to his home at E thereby reducing his traveling expenses. Territory GBHD was given to another salesman and he was routed in a similar

manner. Each salesman was given fewer accounts but was expected to call more often. This reduction in accounts permitted a reduction in the number of salesmen required to cover these territories. The selection of these accounts was determined by means of a study of Merger C's channels of distribution. This study showed that one-fourth of the retail grocery stores in the United

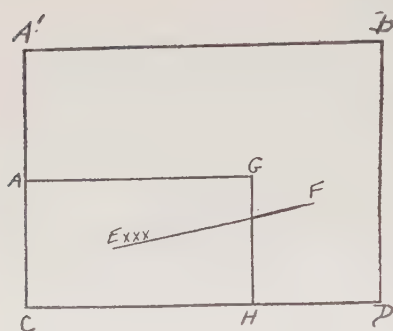
States accounted for sixty per cent of the sales of Merger C's products to the ultimate consumer, while another fourth of the retail stores of the United States accounted for an additional fifteen per cent of the sales. Classified by dollar sales the first one-fourth of the outlets were termed Class A outlets, the second one-fourth of the outlets were termed Class B outlets while the third and fourth groups of outlets were termed Class C and D outlets. Under the new plan the retail salesmen concentrate on the A and B accounts, call on the C accounts once or twice a year and do not call on the D accounts at all. Because Merger C's products have consumer acceptance, that is they are established in the consumer's mind through advertising, the C and D outlets are practically forced to carry Merger C's products. Failure to stock the products would mean incurring the consumer's displeasure and would often mean the loss of a customer.

Sales volume increased so satisfactorily as a result of this experiment that the entire country was redistricted, whenever practical. The third salesman which ABCD formerly supported was either released or put in one of the specialty sales groups. These groups helped build sales on new products or on products which had great sales resistance in specific territories.

As a result of this increase in the size of sales territories together with sales concentration on A and B accounts Cs reduced its salesforce from nine hundred to seven hundred men at a saving of salaries and traveling expenses of one million dollars a year.¹⁵ This was not a net saving reflected one hundred per cent in net profits, since part of this money was used to organize an educational department to carry on specialty sales work and to conduct sales researches.

The second step in the merchandising program of Merger C was the development of combination salesmen:

¹⁵ Another source of saving was the consolidation of rented warehouse space. The parent company had rented warehouse space in twenty-six sales districts and many of the companies purchased by this company had also rented warehouse space in these districts. With the organization of Cs these warehouse spaces were consolidated at one warehouse in each district and a substantial saving resulted. These storage facilities are solely for servicing retailers in large metropolitan areas. The wholesalers are still the regular media for the physical distribution of the products, excepting chain-store purchases, and the retail salesman's truck is for special items.



ABCD represents a wholesale salesman's territory and AGCH a retail salesman's territory. Prior to the establishing of combination salesmen the wholesale salesman traveled from F to E to call on three accounts. Under the new plan a better salesman was put into AGCH and he called on the wholesale accounts in addition to his retail accounts. He was now a combination salesman.

A sales research showed that taking

the country as a whole the first two hundred sixty-nine wholesale accounts of Merger D in point of dollar sales accounted for fifty-four per cent of the total sales of the company. The largest account was fourteen million dollars a year and the smallest of these accounts was fifty thousand dollars a year. These two hundred sixty-nine accounts are now given to better wholesale salesmen and all the other wholesale accounts are given to the combination salesmen.

The best salesmen in the company now concentrate on these two hundred sixty-nine wholesale accounts, whereas the combination salesmen sell both the remaining wholesale accounts and the larger retail accounts. In the instance of retail accounts the combination salesmen concentrate on the larger A and B outlets as in the case with the regular retail salesmen.

The adoption of combination salesmen has again lowered sales expense per unit of volume. Certain wholesale salesmen have been released, other wholesale salesmen have become combination salesmen taking the place of retail salesmen. These retail salesmen either became specialty men or were released. With all of these changes Merger C has maintained or increased sales on all but two of the products. The company has strengthened its competitive position in the industry while strengthening its sales organization and obtaining lower sales costs.

In 1930 the merger merchandising management instituted a system of sales training based on the combined experience of C1, C2 and C3.

During 1929, 1930 and 1931 the merger has expanded its research activities and developed several new products and new processes such as:

- (a) A violet ray treatment for foods to increase their vitamin content.
- (b) A special processed vacuum packed coffee.
- (c) A line of quick frozen meats, sea foods, vegetables, and fresh fruits.

The full merchandising force of these three developments is not felt as yet such as to reflect in the profits of the company. This is the speculative and most promising feature of the business. Coffee sales show a fine increase and sales of frosted foods are progressing favorably with one hundred retail outlets selling the foods in New England.¹⁶ These frosted foods are also on sale in New York City and Philadelphia. Merger C intends to expand the sale of frosted foods and enter new territories, but is proceeding cautiously. Potential market tests are being used to determine what metropolitan, suburban and rural districts should be next in order for sales expansion.¹⁷

Although several packing companies have developed quick freezing processes, Merger C seems to be the only company which is making a serious effort to build sales. The packing companies are prohibited by the packers' consent decree from freezing fruits and vegetables and could therefore only freeze meats and meat products.¹⁸

There is considerable consumer prejudice against frozen foods, but the attractive display case, the convenience and the colorful package, the consumer's curiosity to try the product, and the evident quality and fine flavor of the products have caused sales to increase rapidly.

Merger C is at present improving its frozen foods and planning new merchandising methods, but the introduction of these new methods is being delayed. The merchandising management

¹⁶ The product to be frozen is packed in rectangular boxes and frozen almost instantaneously to fifty degrees below zero. This rapid freezing does not let the cells break down and so the products retain their natural color and appearance. The products can be shipped from coast to coast with one packing of dry ice.

¹⁷ The company now uses portable freezing equipment which can be taken to the fields and packing centers. Special display cases for use in retail stores have also been developed by the company and can be purchased on time payments.

¹⁸ *United States of America vs. Swift and Company et al* Equity No. 37623—Supreme Court of the District of Columbia—Hawkins and Loomis, Law Printers, Chicago, Ill.

believes it has reached a point where the smooth operation of the merger selling organization must be secured before new methods are adopted.

Merger D

The parent company of Merger D was engaged in the manufacture of a perishable packaged food product and several products used in baking. The company had national sales of these products through a company owned direct to retailer truck delivery system. Those who organized the merger believed that this delivery system could be used for other packaged food products.

Merger D was organized in 1929 by financial interests who we understand have large holdings of stock in the companies involved. Four companies were included in the merger and the merger management has not seen fit to purchase additional companies.

The parent company of the merger was earning twenty per cent on dollar sales in 1929 and surplus was earning four per cent. The management used some of this surplus to purchase the three companies which together with the parent company formed the merger, and governed said purchases by the same policies as did those entrepreneurs who organized Merger C.

The merger is said to be under the control of a famous banking group and much criticism has been made of its showing. It is true as pointed out by these critics that merchandising expenses have increased enormously and that profits have only increased one per cent since the merger. However, sales have increased at a good rate and after the period of initial advertising is over the company should show a good margin of profit.¹⁹

The parent company had twelve sales territories and eleven sectional factories. These factories were not centralized by the

¹⁹ Quotation from the President's annual report to the stockholders: "It is not to be expected that profits commensurate with increased advertising and sales expense would be secured for these two companies' products during the first year. However, the rate at which their sales have increased confirms belief of the directors and officers of your company that the expansion program undertaken is warranted."

merger management and the sales territories have not been changed. The selling and delivery functions were merged by the parent company in the person of the truck delivery man and this arrangement is used by the merger in an attempt to build national sales of the sectional products of two of the purchased companies. The third company, which the parent company purchased, still uses the wholesaler-retailer channel of distribution. Purchases of supplies and raw materials, accounting, advertising, selling, merchandising research, credit and collections and administration were merged for all four companies. A separate salesforce sells certain of the baking products to the wholesalers. These products are not handled through the merger's delivery system but are sold to the bakers by the wholesalers.

The merchandising program of Merger D involves:

- (a) The development of more efficient methods of sales promotion and advertising.
- (b) The use of multiple-selling.
- (c) The better planning and correlation of advertising.
- (d) The development of a merchandising research division.
- (e) The development of new products.
- (f) The building of seven new plants to care for the expansion of the two sectional products into national products.

The new methods of selling, sales promotion and advertising, together with the better planning of advertising and the work of the merchandising research division, are discussed in Chapter III. The development of new products is taken up in Chapter V.

Company E

Company E is engaged in the manufacture and sale of a nationally known soda fountain beverage. Approximately seventy-five per cent of the company's product is sold as syrup and twenty-five per cent is sold as a bottled beverage.

In sections where volume sales warrant a bottling plant the bottling privilege is leased to an individual who builds or leases his bottling plant, furnishes his own trucks and employs his own drivers.

The syrup, for use by the fountain trade, is sold to jobbers who receive shipments direct from the central manufacturing plants. The retailer purchases his syrup in barrels from the nearest jobber.

The merchandising program of Company E is essentially the same as that used when the business was founded. This program involves:

- (a) Concentration on one product.
- (b) Sale of all syrup through jobbers.
- (c) A service man calls on the retailer once in three months in an inspection and sales promotion capacity.
- (d) The company maintains very heavy advertising commitments and has one of the outstanding advertising programs of a beverage manufacturer.
- (e) Truck delivery of the bottled beverage from the bottling plant direct to the retailer.
- (f) Sales promotion helps and displays furnished to the retailer by the company and installed by the service man and the truck driver.

Company E has concentrated upon one product and uses a large amount of advertising space. There is no retail salesforce and no personal selling. Wholesalers are reached by salesmen however. The service men act primarily in a sales promotion capacity.

The service man arranges store displays and instructs the retailer how to use the syrup in order to secure the most attractive drink. These displays and demonstrations are designed to help the retailer secure full benefit of the company's advertising. Company E has no system of sales promotion training for its service men but does have these promotion men teach the retailer to sell its product.

The unique and pleasing flavor of the product together with the heavy advertising has resulted in a nation wide consumption of the product. Advertising is relied upon to keep the product in the mind of the consumer and he orders the product, it is not sold to him by a salesman.

The volume of sales of Company E's product constitute

between sixty and seventy per cent of the consumption of soft drinks in the United States. There is a sufficient margin of profit to satisfy the retailer, the jobber and the manufacturers. The retail price has not been raised since the company began operations but profits have steadily increased and for the most part in direct proportion to increased dollar net sales. Company E officials and jobbers state that an increase in the retail price would reduce sales volume sufficient to lessen total sales and profits.

The service men operate over sufficiently wide territories to achieve a low sales promotion cost. The necessity for frequent calls is eliminated due to the persistence and effectiveness of the advertising. Low sales promotion cost, no company owned bottling plants or company owned trucks and no salesforce are partially offset by heavy advertising expenses.

In 1928 and 1929 the company eliminated many of its jobbers and gave larger territories to the remaining jobbers. The reason for the elimination of certain jobbers was their refusal to stop giving discounts and secret rebates which amounted to price cutting. Such price cutting was a constant source of ill-will and resentment so the management of Company E decided to give the entire jobbing function to fewer and more reliable jobbers. The elimination of the unsatisfactory jobbers has resulted in better trade conditions and is satisfactory to the management and to a majority of the middlemen.

Company F

Company F is the largest manufacturer of soaps and cleansers in the United States. The company originated as a small soap manufacturing business.

The company manufactures the leading brand of toilet soap, some very popular laundry soaps, cleaners and a de luxe toilet soap. There are eight nationally established products in all and several products of minor importance.

The products of Company F are all sold direct to wholesalers, chain-stores and voluntary chains by means of a force of approximately two hundred fifty salesmen. Salesmen call at stated intervals in the major population areas. In sparsely

settled areas the company depends on demand created through its national advertising.

The merchandising program of Company F involves:

(a) Sale of a group of soaps and cleansers which fulfill all cleaning requirements.

(b) Sale of all products through the wholesaler channel of distribution.

(c) No sales promotion activity in the instance of middlemen.

(d) Advertising through the medium of the radio.

(e) An effective national advertising program with heavy advertising expenditures.

(f) Research to develop new products which please the consumer.

The salesforce and production equipment of the parent company was gradually expanded in keeping with the increased national sales of Company F. The wholesalers were prone to use the company's products as loss leaders since they carried a lower margin of profit than the non-nationally advertised brands of the wholesalers. In 1925 Company F experimented with direct-to-retailer selling in certain metropolitan areas but lost considerable volume and so gave up the idea of direct selling. It required two years after the return to the wholesaler-retailer channel of distribution to regain the lost volume of sales. During the period 1925-1930 Company F's products became so well established in the national market, through the advertising efforts of the company, that in 1929 the company commenced to refuse to sell any order on the basis of other than the accepted trade discount. The organization of the voluntary chain systems and the growth of the regular chain systems together with increased consumer acceptance made it possible to escape the necessity of granting trade discounts. Both were sold on the same basis and account for the lion's share of Company F's sales.

There is still considerable use of Company F's products as loss leaders however, chiefly on the part of the independent wholesaler. Often these wholesalers attempt to substitute a product of inferior quality which attempt sometimes succeeds because of the lack of consumer acceptance in certain instances.

Company F is successfully using research to develop new products and test campaigns to ascertain probable consumer acceptance. Once a product makes a good showing in a test campaign, national advertising including radio sales promotion and radio advertising are used to develop consumer sales. The most recent success is a soap flake for dish washing which has been extensively radio advertised.

Company G

Company G originated as a sectional purveyor of packaged food products. Prior to 1917 the company sold through sales agents; after 1917 the company sold to wholesalers.

The administration of the company manufactures all its products under one trade name. A salesforce is used to contact the wholesaler. The retailer is contacted by means of a sales promotion group. The company has gradually increased the number of products sold from four to fifteen and sales are being increased through intensive work in successive territories. The leading products sold include coffee, peanut butter, salad dressings, chewing gum and ketchup. National advertising was begun in 1922.

The sales agent, since he sells a number of different manufacturers' products, was not in a position to develop maximum sales of Company G's products. In 1917, when the company had sufficient cash surplus, a salesforce replaced the sales agent. This salesforce contacts the wholesaler.

Since 1922 the company has expanded its volume sales but merchandising expenses have increased at such a rate that profits have remained stationary. National advertising and selling efforts have not been greatly expanded since this date. An attempt was made to reduce merchandising expenses by retirement of the sales promotion men and the substitution of an arrangement whereby a leading chain-store company acts as the principal retail outlet in certain metropolitan areas. To date this move has not caused any appreciable change in merchandising expenses but probably will cause a reduction. Sales promotion expenses are fairly constant throughout the year whereas the chain-store selling commission is in proportion

to sales, which in the instance of Company G are highly seasonal.

The difficulties of Company G are due to lack of merchandising ability on the part of its management, and lack of capital. The relative small cash surplus of Company G as compared with Merger C reflects differences in financial policy and in merchandising policy.

Company G's wholesale salesmen sell the entire line to the wholesaler. A separate force sell the chain-stores. The salesman cannot possibly give adequate attention to all these products. The system of sales training makes use of high-pressure sales methods which the salesmen use in securing orders for the company's products.

The sales promotion men have done most of the selling and multiple-promotion has proven successful for six products. Any great improvement in promotion work is impossible, however, so long as the merchandising administration refuses to reduce sales promotion territories.

Company H

Company H originated as a meat packing company which also sold produce and provisions. The company had sectional sales and built up a sizeable volume in the mid-west through use of the wholesaler-retailer channel of distribution.

In 1927 the company management decided to introduce canned ham and chicken. The process is called flavor-sealed, since the ham and chicken are sealed in the can and then cooked under steam pressure. The product is of exceptionally good flavor and quality. In 1932 the company introduced a vegetable soup under their trade name. Whole, half and quarter hams are packaged at weights varying from a fraction of a pound to approximately four pounds. Whole and half chickens are available and also sliced chicken for sandwiches, salads or cold cuts. Both the ham and chicken can be fried or roasted in a fraction of the time necessary when preparing ordinary ham and chicken since they are already pressure cooked. They can be served cold if preferred and when so served need no preparation.

The merchandising program of Company H involves:

- (a) Concentration on canned flavor-sealed ham, chicken and vegetable soup.
- (b) Sale of all products through wholesalers.
- (c) National and sectional advertising.
- (d) The use of the radio for advertising purposes.

Since 1927 Company H has concentrated most of its merchandising effort upon the flavor-sealed products. The company is still in the general meat packing business but does only a sectional business in fresh and smoked meats. These products are sold to jobbers. In the instance of the merchandising program national sales were first attempted in 1928 through the media of chain-stores, voluntary chain-stores and the wholesaler-independent retailer channels of distribution.

The company salesforce sells wholesalers, chain-stores and voluntary chain-stores but there is no attempt made to contact the independent retailer. All sales promotion effort is concentrated on the ultimate consumer. National and sectional advertising is relied on to develop consumer demand for the products. The sales promotion activities of Company H will be discussed in Chapter III.

SUMMARY

A comparative analysis of the selling organizations and methods of four mergers and four independent companies shows that three of the four mergers contact the independent retailers through a salesforce whereas none of the four independent companies have retail salesmen. The mergers' object in using these retail salesmen is to build a larger amount of their total sales through the independent retail outlets. The fourth merger has a sales promotion group to contact independent retailers. Although the sales promotion men are not to take orders their activities are aimed at increasing the independent retailers sales, and so in effect all four mergers are in agreement in their attempts to increase their sales with the independent retailer and so secure a better control of the channel of distribution.

All eight companies sell their products through the wholesaler-

retailer, chain-store and voluntary chain-store channels of distribution. Officials of these companies are in general agreed that the chain-store in its insistence on lower price for everything it buys is their sworn enemy. There is this difference between the policies and activities of the mergers and three of the independent companies. The three independent companies have done nothing other than consumer advertising and sales promotion to help the independent retailer increase his sale of the products. The fourth independent company does not sell to chain-store companies. But the four mergers have salesmen who are instructed how to help the independent retailer increase his sale of the mergers' products.

Three of the four mergers are attempting direct truck to retailer delivery for perishable products. These activities are resulting in a steady increase in such deliveries. Moreover, many chain and voluntary chain retail outlets now receive these products in this manner. Such delivery is an attempt to guarantee freshness for perishable products when they reach the consumer. None of the independent companies studied have attempted to give the consumer such a guarantee. Certain independent food manufacturers' products reach the retailer through direct truck delivery but only the mergers have truck to retailer delivery on a national scale. The more notable merger developments of this sort are dated coffee, tea, baking powder, gelatin, cheese and mayonnaise products.

The mergers have not found it advisable to completely merge the selling and delivery functions. Certain of the mergers' products are not perishable and therefore there is no advantage in direct delivery. Perishable products are in the instance of small and isolated retailers sold by the truck delivery man. However, careful studies show that the selling function requires more time than the truck driver can give if he is to make a sufficient number of daily deliveries to cover his operating and fixed expenses. Wherever it is possible to build volume sales the mergers send salesmen or sales promotion men to contact the retailer, while delivery is by truck or through the wholesaler, chain or voluntary chain systems. The mergers have secured economies by merging the collection, warehouse, delivery and

transportation functions of the former independent companies.

Multiple-selling is defined in this study as the process of having one salesman sell more than one of a company's products in the instance of a single call. In a sense most middlemen are not sold, they order. Selling as we here use the term implies persuasion and leadership to overcome sales resistance such as to result in the buyer accepting a larger amount of the goods than he otherwise would. The mergers have introduced multiple-selling to wholesalers and three of the mergers are now using multiple-selling to certain independent retailers. Outstanding progress in the use of multiple-selling has been achieved by Merger C which has studied its independent retail outlets and concentrates on those which handle most of the sales. In addition Merger C has commenced the use of combination salesmen who sell both the smaller wholesale and the independent retail accounts. This makes possible fewer and better wholesale salesmen to handle the large wholesale, chain and voluntary chain accounts. This merger formerly had three subsidiary selling companies and the salesmen were all using multiple-selling. In 1929 these three selling companies were merged and the retail salesmen now handle the entire retail group of products.

The mergers have absorbed the salesmen of the purchased companies who could successfully use multiple-selling or who could produce as specialty salesmen. The cumulative effect of multiple-selling is evident in that sales volume increases as the salesmen become more proficient in such selling and as sales territories are reduced and routing of salesmen together with concentration on class A and B accounts is practiced. Such multiple-selling has produced increases in sales. As the salesman masters the art of presenting several products at one call the average sale increases and the total volume of sales increases. The spectacle of many salesmen calling upon a wholesaler and retailer, each with one product to sell, is a wasteful picture. If the retailer is stocked on the item a salesman with but one product to sell cannot secure an order. But when the salesman has several items to sell he has an opportunity to sell other products. Multiple-selling may be expected to produce greater

sales in the future as new methods are introduced which are more effective in teaching the middleman how to sell the products to the consumer.

Multiple-selling calls for a new type of salesman. Selling several products at one call and doing this on successive and frequent calls necessitates a different type of selling ability from that required to sell one product. So far the mergers have selected salesmen who could produce with multiple-selling. The management has given all the purchased companies' salesmen an opportunity to try such selling. At present the mergers are making studies of multiple-selling in order to ascertain whether or not they can secure a better type of multiple salesman and so secure even more satisfactory sales results.

One consideration governing the organization of the mergers in the instance of C and D has been to reduce seasonal fluctuations in sales. Companies were purchased whose seasonal sales peaks occurred at different periods of the year. Concentration of multiple-sales effort in each season upon products which have low sales has further resulted in a reduction of seasonal fluctuations.

Mergers A and D have made fewer and less comprehensive studies of retail outlets than have Mergers B and C and have not made use of combination salesmen. Three of the four mergers have made changes in retail salesmen's territories to permit more frequent calls and hence better use of multiple-selling. Four to eight products seem to be the best number for a multiple sale.

Multiple-selling has been introduced in the packaged food products industry by mergers and to our knowledge has not been extensively used by independent food products manufacturers, except in selling to wholesalers.

All four of the mergers have secured sufficient consumer acceptance to enable these companies to refuse special price concessions to chain-stores. Wholesalers, chains and voluntary chains all receive the same terms for large orders. These terms are based on the size of the sale and on whether payment is cash or on credit. Prior to the organization of these mergers few of the independent companies now a party to the mergers

had sufficient consumer acceptance, as reflected in volume sales, to refuse special price concessions to the chain-stores. Of the independent companies E, F, G and H only Company F now has sufficient consumer acceptance to refuse price concessions to the chain-stores.

The numerous reductions in merchandising expenses, together with the increases in sales and profits resulting from changing organizations and methods, are evidences of increased merchandising efficiency.

III

AN ANALYSIS OF THE MERCHANDISING METHODS OF FOUR
MERGERS AND FOUR INDEPENDENT MANUFACTURERS
OF PACKAGED FOOD PRODUCTS*B. Sales Promotion and Advertising**Merger A*

The merchandising management of Merger A uses selling, sales promotion and advertising in an interrelated effort to secure maximum net profits.¹ The retail salesmen perform the selling and sales promotion activity subject to the direct supervision of the district sales manager.

Prior to the organization of the merger few of the independent companies used sales promotion. Only the two companies selling process cheese had retail salesmen and these salesmen made no attempt to show the retailer how to increase his sales of their companies' products.

Merger A developed a sales promotion program as part of its original merchandising plan and this plan, in all of its essentials, is still being used by the company. The retail salesman is taught that his duties are to sell an order of the company's products and then help the retailer sell these products. The salesman is instructed in the mathematics of turnover and the immediate objective of all his sales promotion activities is to secure increased turnover of all the company products at the retail store. These sales promotion activities are planned to take advantage of Merger A's national and sectional advertising efforts.

¹ The term sales promotion is used to denote personal instruction of the middlemen or consumer in the merits and uses of a product. It includes house-to-house promotion, promotion at retail stores and promotion at fairs, conventions, expositions and other gatherings. The term sales promotion is sometimes used to include advertising which aims to familiarize the consumer with the merits and uses of products. Clarity will be secured if the distinction is made between sales promotion as personal instruction and advertising as mass instruction or sales building through outdoor bulletins or posters, magazines, newspapers, radio and direct mail media.

The salesman commences his sale by showing the retailer a new type of display package. The retailer is then shown how to build a floor display around this new display package. If the retailer is already familiar with the display package the salesman shows him how to build a new type of floor display. These displays usually make use of the display package as a focal point.² Following this the salesman shows the retailer enlarged reproductions of advertisements, recipes, or displays which are for the retailer's use in windows or at advantageous points throughout the store. Now the salesman suggests that the retailer use a floor display of the new type, plus at least one enlargement of a magazine advertisement and a window display. Once every two months the salesman also follows this suggestion with a plan for a special sale on certain of the company's products. Price inducements are usually used as the direct approach to a sale.³

This sales promotion activity is preliminary to the actual sale, but it is used to secure an order, of an amount and type, which in the salesman's judgment the retailer is suited to handle. The salesman concludes his sale with more sales promotion in the form of a talk designed to win the retailer's enthusiasm and his actual co-operation in pushing the sale of Merger A's products. This talk includes certain selling points which the retailer can use in his selling efforts, such as:

- (a) The products are fresh. They reach this store through weekly delivery.
- (b) The food value of the products.
- (c) The quality of the products.
- (d) The pleasing taste of the products.
- (e) The convenience of the package and ease of use.
- (f) Free recipe books for the housewife.
- (g) The products are priced to sell.

The salesman usually closes his call by showing the retailer how

² The focal point is that part of a display or advertisement which first attracts the eye. It is an attention factor.

³ The salesman may vary these steps but in no wise omit one of them from his sale.

through increased turnover he can secure a very sizeable profit on his investment in Merger A's products. The salesman says he will call once every two months and show the retailer how to secure this desirable turnover.

Merger A uses national magazines, newspapers, outdoor advertising and radio in order to instruct the ultimate consumer in the merits and uses of its products. The result of this advertising has been to create consumer demand for Merger A's products at the retail store. Part of this demand is a diverted demand; it is securing customers away from rival manufacturers, while a part of this demand is from persons who formerly did not use the types of products manufactured by the merger.

Merger B

The merchandising administration of Merger B uses Selling, Sales Promotion and Advertising programs which are interrelated as to planning but separated as to activities. Sales are secured through salesmen who call on wholesalers, voluntary chain systems, chain-store systems and co-operative wholesalers. The sales promotion program is carried out by a separate group of men called provision men who do no actual selling. The provision men contact the independent retailer and also the chain and voluntary chain retail outlets.

Prior to the organization of Merger B all of the companies, now a party to the merger, were using floor displays and special sales by ways of sales promotion activity. Merger B continued to use these media, but organized the sales promotion activities into a program with various interrelated steps. The merger attempted to secure turnover for the retailer on his sales of the company's products. The sales promotion man was taught that his job was to increase the retailer's sales so as to deplete the stocks of wholesalers, and the various chain-store companies. He was instructed in the mathematics of turnover and is expected to show the retailer that increased turnover is a source of great profits relative to his investment in Merger B's products.

Each sales promotion man commences his call with a new display,⁴ then builds new types of floor displays using the product

⁴ These displays are original and are developed by the sales department staff organization.

itself as' the focal point. Enlarged reproductions of advertisements and broadsides are left with the retailer as well as recipe and health talk booklets which feature the company's products. These booklets are for free distribution to the consumer. The sales promotion man concludes his call with a talk designed to aid the retailer sell the company products. The points emphasized are:⁵

- (a) The freshness and sanitary manufacture of the products.
- (b) The food value and healthfulness of the products.
- (c) The quality of the products.
- (d) The pleasing taste of the products.
- (e) The convenience of the package and ease of use.
- (f) Free recipe and health booklets for the consumer.
- (g) The products are priced to sell and give the retailer a margin of profit which, through increased turnover, will bring a sizeable profit on his investment.
- (h) The sales promotion man will call frequently and show the retailer how to secure this desirable rate of turnover.

Some of Merger B's products are ingredients used in the preparation of soda fountain beverages. The sales promotion men must therefore have a knowledge of how to use these products effectively and instruct the soda dispensers how to produce the best beverages.

Merger B uses magazines, newspapers, outdoor advertising and radio to build consumer demand for its products. In common with the policy of the other three mergers in the industry this company has reduced its dollar expenditures for magazine advertising since 1925.

Merger C

The merchandising administration of Merger C uses selling, sales promotion and advertising in an interrelated effort to secure maximum net sales and net profits. The retail salesman performs both the selling and sales promotion functions, subject to the direct supervision of the district sales manager.

⁵ The provision men may vary these steps but in no wise may they omit a step.

Prior to the organization of Merger C only two of the companies, now a part of the merger, used sales promotion and one of these was the parent company of the merger. Many of the companies used sales agents.

The two companies which used sales promotion during their early development did not actually use sales promotion as an approach to the sale, had no program and confined their efforts to the use of posters and displays.

Merger C merchandising management developed a sales promotion program as soon as the merger was organized and has been improving this branch of its sales work since this time. The immediate object of every salesman is to show the retailer how to build increased turnover of his sale of company products. The merchandising administration does not look upon the salesman's work as being in the nature of a division of time between selling and sales promotion. The salesman is taught that the sale is a unit and that he has to interrelate tasks, to sell the retailer an order of goods and to show the retailer how to sell these products to the ultimate consumer. The salesman is so supervised in his twofold task that his efforts synchronize with the Merger's national advertising.

The ultimate objective of the sales promotion work of Merger C is to develop as many Class A and Class B⁶ retailers as possible into mutual co-operative sales units such that these retailers look upon the salesmen of merger C as an insider, the merchandising consultant.⁷ When the salesman contacts the retailer for the first time he commences by telling the retailer the nature of a Merger C salesman's work. The points stressed are:

- (a) The principal purpose of the call is to point out how the retailer can make more money through the merger's aids for building greater turnover. This means mutual profit to the retailer and to Merger C.

⁶ See page 41, Paragraph 2.

⁷ The term merchandising is here used by the salesman in the more limited sense to mean all methods for instructing the retailer how to increase his sales of the company's products. In this sense merchandising is synonymous with our use of the term sales promotion. The administration of Merger C also uses the term merchandising to mean the three functions of merchandising. See page 1, paragraph 2.

- (b) The merger C salesman is not selling in competition with the wholesaler's salesman.
- (c) The Merger C salesman wishes to see that the retailer receives the full benefit of the merchandising plans of Merger C.
- (d) To this end Merger C's salesman is prepared to give the retailer the following definite services:

The salesman can make sound recommendations as to how much of each of the merger's products the retailer should carry in stock.

The salesman can always furnish special items from his truck and frequently can tide the retailer over until the wholesaler can fill an order.

The salesman can help the retailer plan his newspaper advertising.

The salesman can lay out special advertising such as hand bills.

The salesman will show the retailer ways of conducting retail sales.

The salesman can arrange special demonstrations when advisable.

The salesman can assist the retailer with his displays.

The salesman can assist the retailer in organizing all his efforts into the general merchandising program which will build sales and profits.

The salesman is trained to use the "balanced call." This call was developed by the sales staff organization of Company Cs and involves the following steps:⁸

- (a) Find out what the retailer's requirements are and service his stock.
- (b) Decide what the retailer should order and what merchandising helps he should use.
- (c) Take the order.
- (d) Induce the retailer to cooperate on constructive sales building plans.
- (e) Install displays.

The first two steps are essential to the satisfactory performing of the remaining steps and must be enacted at the start of the sale. The salesman can vary the order of the remaining steps to suit the particular situation.

At each call the salesman sells the name and policy of the company in addition to dispatching these promotion functions. The policy of the company is threefold:

- (a) The guarantee of quality.
- (b) The guarantee of sale.
- (c) The guarantee of turnover.

⁸ Our observation of the actual selling of Merger C salesmen show that the better producers perform these functions.

and the retailer is told that these guarantees hold absolutely if he co-operates with the Merger C salesman.

In the talk with which the salesman often concludes his call the following points are emphasized:

- (a) The products are guaranteed to be fresh and if the retailer follows the salesman's plans he will sell the products at the right rate to insure steady turnover.
- (b) The food value and health properties of the products.
- (c) The pleasing taste of the products.
- (d) The quality of the products.
- (e) The convenience of the package and ease of use.
- (f) Free recipe books for the consumer.
- (g) Products are priced to give good profits through turnover.
- (h) The salesman will call at regular intervals as an integral part of the retailer's merchandising attack.

Merger D

The truck delivery man of Merger D is also a salesman and the company has a separate group of men to do sales promotional work. These men also secure new retail outlets for the merger's products.

Prior to the organization of the merger the companies now a party to the merger used little sales promotion, excepting the parent company. Immediately upon its organization Merger D instituted a sales promotion program as part of its effort to secure national sales on the sectionally known products of certain purchased companies. Both the truck delivery men and the sales promotion men were taught how to use special circulars in order to get the retailer to enthusiastically back the merger products. The profits of turnover were emphasized. In contrast to Merger C's methods, these men are not as yet trained to actually show the retailer how to sell the products. Displays and the circulars constitute, together with selling talks, the entire sales promotion effort of the company.

When the delivery man calls at the retail store he proceeds in the following manner:

- (a) Services the stock.
- (b) Offers a special price inducement on some of the merger's products and tries to get additional orders of other products.

- (c) Induces the retailer to accept a display or broadside.⁹
- (d) Installs this display.
- (e) Gives the retailer a sales talk which includes such selling points as:
 - The products are fresh and have weekly delivery.
 - The products are of the best quality and are made with the finest ingredients.
 - The products are more profitable than most food products provided the retailer uses the company's plans to increase turnover. This amounts to a special each week in keeping with the company's local newspaper advertising and radio broadcast.

Company E

A comparison of Company E with Merger A as regards selling, sales promotion and advertising shows that Company E has no sales promotion program whereas Merger A has a well-planned program. Company E uses several national magazines but has no tie-in between its magazine advertising and sales promotion, whereas Merger A advertises in these magazines twice a month and also in other magazines. The merger ties up its advertising and sales promotion activities. The retail sales promotion work of Company E is limited to the placing of displays and the use of occasional sales drives. This work is in reality advertising and selling activity and not sales promotion.

The Company E inspection man is told that he must aid the retailer in his problem of securing increased turnover, but there is no system of training the company representative in showing the retailer how to get this increased turnover. Nor is the representative trained to show the retailer how to conduct special sales of Company E's products. He merely inspects the fountain, introduces a new booklet or display and instructs the retailer how to mix the beverage.

All four of the independent companies studied use the radio together with direct mail for advertising with the ultimate consumer. New uses, menu planning and new recipes are presented.

⁹ These displays and the pamphlets sent by the company constitute a year's complete sales promotion program.

Company F

Company F in contrast to Merger B has no separate sales promotion group. The regular salesmen sell to the chain-stores, voluntary chain-stores, and wholesalers but there is no sales-force to contact the independent retailer. Merger B and Company F both sell to the retailer through the wholesaler.

Prior to 1925 Company F sold through the wholesaler-retailer channel of distribution but because of inability to control this channel of distribution expanded its salesforce and in that year commenced direct selling to all retail outlets. Sales promotion was used in the form of sales talks coupled with free deals and price inducements. Heavy expenses together with reduced volume made the management return to the wholesaler-retailer channel of distribution. Since the abandoning of direct selling there has been no sales promotion contact with chains, voluntary chains or independent wholesalers. Sales promotion is limited to fairs and expositions.

The merchandising administration of Company F does not separate sales promotion and advertising but puts both of these activities under "Distribution Manager" who is very partial to advertising and has not worked out a sales promotion program. Radio and direct mail material together with free deals are used but according to our definition this is advertising activity not sales promotion.

Company G

Company G has used a separate group for sales promotion work, whereas Merger C has its regular salesmen do this work. This sales promotion group called on the retailers, supplied free displays, arranged the displays and conducted store demonstrations whenever advisable. There was no actual effort made to instruct the retailer how to sell Company G's products. However, the sales promotion man gave the retailer a sales talk in which he emphasized the quality, convenience, food value, etc., of the products. The merchandising administration of Company G has gradually reduced the number of sales promotion men and salesmen, and in certain territories has returned to the use of a sales agent. In 1929 the use of sales promotion other than

at expositions was discontinued and the promotion men were absorbed into the salesforce or else discharged. The merchandising expenses of the company have been increasing at a faster rate than profits in certain instances and the reduction of salesmen and sales promotion men is an attempt to offset his tendency.

Company H

Company H uses radio, magazine and newspaper advertising to increase the sale of its products. There is also considerable attempt to use these media to familiarize the consumer with new uses of the products. There is no sales promotion for the middleman or the consumer except occasional demonstrations at fairs and expositions.

SUMMARY

A comparison of the sales promotion and advertising of the four mergers and the four independent companies studied shows that the mergers use sales promotion and advertising both in their contacts with the independent retailer and the ultimate consumer, whereas the independent companies use sales promotion and advertising only in the instance of the ultimate consumer. The merger managements are attempting to help the independent retailer sell more of the merger's products. The independent companies do not consider helping the independent retailer sell the company's products as part of their merchandising task. In other words the mergers are actually teaching the independent retailer how to sell their products and are going to no little expense in this type of activity. The aim of the mergers is to increase their sales and consequently their profits. Back of these sales promotion activities is merger antagonism to the chain-store with its constant insistence on lower price.

The merger sales promotion activities in behalf of the independent retailer include sales instruction with installation of displays and with sales demonstrations. Selling points are advanced for the merger's products which the retailer is urged to use in selling the products to the ultimate consumer. In the course of

our interviews with independent grocers we have not found a single instance, other than these four mergers, where a grocery manufacturer actually has a plan and gives instruction to aid the retailer sell the products. Those independent manufacturers who do contact the independent retailer in a sales promotion capacity confine their efforts to the installation of displays and to price inducements. Their appeal to the retailer is profit per unit and turnover. The merger products have a double appeal, profit per unit and sales promotion instruction to increase the sales.

The mergers have caused a change in the type of salesmen over the old product salesmen. The mergers require their salesmen to sell a group of products at one call and to instruct the retailer. This means that the salesman must have the ability to convince the retailer that now is the time to push certain products and that he, the salesman, can best show the retailer how to conduct this multiple sale of the products. Next the salesman shows the retailer how to arrange his displays and his stock and it is usually in connection with the proposed retail sales plan that the merger salesman secures his multiple order. Moreover, the merger salesmen are expected to collect data on market changes, changes in buying habits and anything which in any way would be valuable to the management in planning and executing future merchandising activities. Therefore, the merger salesman has to be a superior type of salesman as compared with the food products salesman who sells but one product and who does little sales promotion other than arranging an occasional display. Salaries for merger salesmen are higher than for the four independent companies' salesmen. Merger salesmen's salaries are considerably higher than the average salary paid in the industry. But the ratio of salesmen's total remuneration to sales is such that unit sales costs are lower for the mergers than for either the four independent companies or the industry as a whole. The size of the sale has increased with the adoption of multiple-selling.

The mergers have somewhat reduced the number of salesmen employed as compared with the old independent company set up for the merger constituent companies. The average

reduction for the number of merger salesmen is twenty per cent. Merger C gave permission to publish its reduction which was from nine hundred to seven hundred salesmen.

Although the independent companies studied have numerous products in their line it is our opinion that these companies cannot be classified as using multiple-selling since their salesman features one or at best a group of two or three products per call. The buyer may request other products but this is order taking. If by salesmanship we mean the overcoming of inertia or resistance then certainly the four independent manufacturers are not engaged in multiple-selling. Multiple-selling can probably best be thought of as a merger technic in so far as the packaged food products industry is concerned.

All of the mergers studied and independent companies E, F, and G use radio and direct mail for advertising to the ultimate consumer. The principal part of this sort of activity is in charge of home economics instructors, who advance new uses, recipes and plan the meals for the housewife. Mergers and independent companies seem on a par in this type of merchandising activity.

During the periods of their existence all four mergers have increased their expenditures for newspaper, radio and outdoor advertising. Merger D has increased its expenditures for magazine advertising while Mergers A, B and C have decreased their magazine advertising appropriations. Merger D has the task of building national sales on sectional products whereas Mergers A, B and C enjoy national sales of their products and consequently, through the better planning and coordination of advertising, selling and sales promotion activities, have been able to reduce magazine expenditures.

The mergers are able to hire specialists to plan the advertising for groups of products whereas the independent companies do not have the resources or the number of products to make such specialization possible. One very noticeable tendency in merger advertising as contrasted with independent company advertising is the greater use of copy. Prior to the organization of these mergers most of the constituent companies used a more pictorial appeal and also used many slogans and poems. This pictorial appeal has given place to more emphasis

on copy so far as merger advertising goes, whereas it is still the principal appeal of the four independent companies studied and the industry as a whole.

In general it is still the practice of packaged food products manufacturers to use the free deal as an inducement to secure sales. This practice is being gradually reduced by the mergers. Whether complete elimination of the practice will be achieved is at present difficult to determine.

IV

AN ANALYSIS OF THE MERCHANDISING METHODS OF FOUR MERGERS AND FOUR INDEPENDENT MANUFACTURERS OF PACKAGED FOOD PRODUCTS

C. Merchandising Administration, Research and Expenses

Merger A

The merchandising administration of Merger A consists of the general sales manager, the advertising manager and the executive vice-president. This group functions as a committee to plan and coordinate the entire merchandising effort of the company. Matters which do not require a group judgment are authorized by any one of these administrators individually.

Prior to the organization of the merger the independent companies had no separate merchandising administration. All administrative judgments, whether for production, merchandising, finance or some other phase of the business, were made by the president or general manager. This official was responsible for all advertising appropriations and expenditures.

The development of process cheese constitutes the extent of merchandising research prior to the completion of the merger. There was no product analysis or market analysis. No attempt was made to improve or change selling methods. There was no correlation between selling and sales promotion activities. The companies did not use sales research or advertising research. Many of the products were unbranded.

The merger management organized separate groups within the sales department to carry on educational, sales promotion, advertising and sales research activities. The research groups make analyses of products, market analyses, study selling methods in a search for improvements, and correlate selling and sales promotion. The above mentioned research activities together constitute merchandising research.¹

¹ The term merchandising research denotes all research activities which are a part of the performance of the three functions of merchandising.

The salesforce collects data and makes market tests at the suggestion of the research group. In certain instances, however, trained investigators are employed to make these surveys. One method of introducing or improving products which Merger A has found to be very successful is to have special store demonstrations at which free samples, sandwiches, etc., are offered each person who enters the store. The store demonstration is a very common method of introducing products, but Merger A's research division uses consumer reactions at these demonstrations as a basis to improve the product, and to improve the selling methods and the sales promotion methods. Such a store demonstration is sales promotion in that it instructs the retailer how to sell more of Merger A's products, it is advertising from the consumer's and the retailer's viewpoint and it is merchandising research from the viewpoint of Merger A. The research chemist is guided by these researches in his developing of new products and new tastes for products.

Merger B

The merchandising administration of Merger B consists of the vice-president in charge of sales, the general sales manager and the advertising manager. This group operates as a committee in order to plan and coordinate all merchandising activities.

Prior to the organization of the merger the independent companies had no separate merchandising administration. The president or chief administrative officer did all administrative work. There was no merchandising research.

The merger management organized separate groups within the sales department to perform the educational, sales promotion, advertising and sales research activities. These groups function similarly to the corresponding groups in Merger A's sales organization. In contrast to Merger A, however, Merger B makes no product or market analyses. It does study and improve its selling methods, correlates the selling and sales promotion programs and uses both sales and advertising research.²

The salesforce aids the research division in the collection of

² See pages 33 to 36 inclusive.

pertinent market and product data such that the research division will develop new products and new uses for products which will win consumer acceptance. The educational division uses radio and booklets as supplementary advertising in connection with the company's use of magazine advertising.

Merger C

The merchandising administration of Merger C is a committee which consists of the executive vice-president, the vice-president in charge of sales and the vice-president in charge of advertising. These three men plan and are ultimately responsible for the entire merchandising effort of the company.

Prior to the organization of the merger the independent companies had a general manager or president responsible for the performing of the merchandising functions. Some of the companies used sales promotion and advertising and had products which were nationally known. Other companies had sectionally known products. Some of the companies performed the three functions of merchandising and some did not. There was a great variation in methods of accounting. Some companies kept detailed records of expenses, others did not. Certain companies had educational and research departments and other companies ignored these operations.

Merger C organized an advertising department, a separate educational department and a research department, each with its own staff organization. The interdependence of these three departments, due to their activities all being a part of the merchandising program of the merger, is recognized by the management of the company. The executive in charge of each of these departments reports direct to the vice-president in charge of sales.

The advertising of the Merger's products is directly supervised by a group of assistant advertising managers, each of whom is responsible for the planning of all advertising for a group of the company's products. These assistant advertising managers plan their advertising in connection with the agency representatives and also with the member of the staff sales organization of Cs who plans the selling effort for this same group of

products. Suggested changes in selling methods and selling organization are tested in representative sales districts when authorized by the president of Cs. The research department is constantly experimenting with new products and uses the findings of these field tests as a guide to what products to develop. The salesforce collects data on market conditions and consumer reaction to the company's products. The results of all these merchandising activities are finally coordinated by the vice-president of the selling company and his two assistants. The vice-president then submits the entire plan to the merchandising administration of C. When authorized by the administration the new plans are put in operation by the executives of Cs.

Merger D

The merchandising administration of Merger D consists of the executive vice-president of the company, the vice-president in charge of sales and the vice-president in charge of advertising. These officers plan and are responsible for the entire merchandising effort of the company.

Prior to the organization of Merger D the parent company's general manager was responsible for the merchandising activities of the company. The three purchased companies had administration power centralized in the president or general manager, used the wholesaler-retailer channel of distribution and had no similarity of accounting procedure. None of these three companies studied markets, consumer reaction to products or merchandising methods. The three purchased companies had no retail salesforce.

The merchandising administration of the merger organized an advertising department which is independent from the sales department. All advertising must have the approval of the merchandising administration. The division of responsibility for advertising is the same as with Merger D, that is, there are assistant advertising managers and sales staff assistants who have charge of the advertising and sales planning for specific products. Suggested changes in selling methods are tested in representative sales districts when authorized by the vice-president in charge of sales. The research department develops new products,

and sales methods and uses the sales research studies of the sales staff division as an aid in this work. All of this merchandising activity is correlated by the vice-president in charge of sales and major policies and charges are then fixed by the merchandising administration.

Company E

The merchandising administration of Company E is under the control of the general manager of the company.

Company E in contrast to Merger A does not have a separate merchandising administration as distinct from the general administrative officers of the company. The general manager periodically visits the various syrup plants, controls financial policy, has sole charge of the advertising expenditures, and performs the merchandising administrative functions.

Company E has no research group, no educational division and has not made any research studies of the consumer, of markets or of products. The channels of distribution are those originally used by the company. The selling, sales promotion and advertising are not unified beyond the attempt to have the inspectors and truck drivers use sales promotion helps and displays. It would seem that the company uses an advertising method so long as it produces results with little attempt to find a better method.

Company F

In the instance of Company F the merchandising administration is the vice-president in charge of sales, the general sales manager and the distribution manager. This group both plan and coordinate the various phases of the merchandising program.

Prior to the elimination of the wholesaler, the company had a wholesale salesforce under the direction of district sales managers but had only a few district sales offices. The salesmen were in most instances under the direct supervision of the headquarters sales staff.

After 1929 the salesforce operated under the supervision of twenty-six district sales managers, the development of which districts took place as a gradual evolution from the old system of centralized control.

The company has no separate advertising department. There is a staff of chemists which is constantly developing new products in terms of markets and consumer acceptance. Sales are used as a proof that the product is a good one. This is undoubtedly a sign of consumer acceptance but perhaps researches would reveal ways of improving the products.

Products have been developed in terms of the full use of production equipment and with a view to have products similar to those of the company's leading competitors.

Company G

The merchandising administration of Company G is the president of the company. The president is also the general sales manager. Company E, Company G and Company H are similar in that there is no separate merchandising administration as distinct from the general administrative officers. The president of Company G supervises all production, finance and merchandising activity.

Company G has no research group, no educational activity and no research study of markets, products or consumer reaction to the products, excepting an analysis of sales records. The channels of distribution have been changed, in the instance of certain sales territories, from the wholesaler-retailer channel to the chain-store exclusive agency channel. The exclusive chain-store channel was abandoned in 1929 and the company now sells to wholesalers, chains and voluntary chain companies.

Sales promotion and selling are not unified or scientifically planned through experimental tests. There is no sales training or sales promotion training.

Company H

In Company H the merchandising administration is the general manager. In the packaged food products division the advertising is in charge of an advertising manager, with an advertising staff group as a subdivision of the sales department. Advertising for fresh and smoked meats, however, is handled by one man who reports to the general sales manager.

TABLE 13

A COMPARISON OF ENLARGEMENTS AND INCREASES IN CAPITAL STRUCTURE, SALES EXPENSES, PROFITS, EARNINGS PER SHARE, AND DIVIDENDS, 1925-1928 INCLUSIVE

MERGER A	1925	1926	NUMBER OF TIMES ENLARGED	1927	NUMBER OF TIMES ENLARGED	1928	NUMBER OF TIMES ENLARGED
Capital Stock.....	\$6,400,000	\$8,190,000	1.28	\$11,324,000	1.76	\$22,000,000	3.43
Surplus.....	1,460,000	3,988,000	2.73	4,279,000	2.99	5,200,000	3.56
Net Worth.....	7,800,000	12,178,000	1.56	15,603,000	2.00	27,200,000	3.48
Sales.....	57,105,000	57,499,000	1.00	60,447,000	1.05	75,648,000	1.32
Manufacturing Expenses...	49,012,000	47,853,000	.98	57,330,000	1.17	65,543,000	1.33
Merchandising Expenses...	6,031,000	6,078,000	1.00	7,464,000	1.23	7,381,000	1.22
Profits.....	2,061,000	3,556,000	1.72	1,652,000	.80	2,722,000	1.32
Earnings per share.....	2.99	2.45	.....	2.03	.....	2.39	.....
Dividends.....	175,000	439,000	2.50	not reported	.....	not reported	.....
COMPANY B							
Capital Stock.....	15,000,000	15,000,000	1.00	25,000,000	1.66	25,000,000	1.66
Surplus.....	16,000,000	16,000,000	1.00	9,956,000	.56	14,395,000	.87
Net Worth.....	31,000,000	31,000,000	1.00	34,956,000	1.12	39,395,000	1.27
Sales.....	28,553,000	30,107,000	1.05	32,515,000	1.13	34,745,000	1.21
Manufacturing Expenses...	13,056,000	12,352,000	.94	13,514,000	1.03	13,948,000	1.05
Merchandising Expenses...	5,576,000	6,076,000	1.09	6,552,000	1.17	6,925,000	1.24
Profits.....	7,899,000	8,403,000	1.07	9,163,000	1.16	10,189,000	1.29
Earnings per share.....	14.47	16.49	.....	9.16	.....	10.19	.....
Dividends.....	3,500,000	3,500,000	1.00	5,000,000	1.43	5,750,000	1.64

³ Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments, also Standard Corporate Statistics.

TABLE II⁴

A COMPARISON OF SALES, MANUFACTURING EXPENSES, MERCHANDISING EXPENSES, AND PROFITS, 1925-1928 INCLUSIVE

MERGER A	1925	PERCENT OF SALES	1926	PERCENT OF SALES	1927	PERCENT OF SALES	1928	PERCENT OF SALES
Sales.....	\$57,105,000	100	\$57,499,000	100	\$60,447,000	100	\$75,648,000	100
Manufacturing Expenses.....	49,012,000	85	47,863,000	83	57,330,000	84	65,543,000	86
Merchandising Expenses.....	6,031,000	10	6,078,000	10	7,464,000	12	7,381,000	9
Profits.....	2,061,000	3	3,556,000	6	1,652,000	2	2,722,000	3
COMPANY E								
Sales.....	28,553,000	100	30,107,000	100	32,515,000	100	34,745,000	100
Manufacturing Expenses.....	13,056,000	45	12,352,000	41	13,514,000	41	13,948,000	40
Merchandising Expenses.....	5,576,000	19	6,076,000	20	6,552,000	20	6,925,000	19
Profits.....	7,899,000	27	8,403,000	28	9,163,000	28	10,189,000	29

⁴ Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments, also Standard Corporate Statistics.

TABLE III^a

A COMPARISON OF ENLARGEMENTS AND INCREASES IN ADVERTISING AND MERCHANDISING EXPENSES, 1925-1928 INCLUSIVE

MERGER A	1925	1926	NUMBER OF TIMES ENLARGED	1927	NUMBER OF TIMES ENLARGED	1928	NUMBER OF TIMES ENLARGED
Magazine Advertising.....	\$443,000	\$385,000	.87	443,000	1.00	\$491,000	1.10
Newspaper Advertising.....	200,000	225,000	1.12	250,000	1.25	80,000	.40
Total Advertising.....	680,000	610,000	.88	693,000	1.02	571,000	.83
Total Merchandising Expenses.....	6,031,000	6,078,000	1.00	7,464,000	1.23	7,381,000	1.22
COMPANY E							
Magazine Advertising.....	.....	.....	.....	.....	.....	.....	.....
Newspaper Advertising.....	225,000	170,900	.75	200,000	.88	300,000	1.33
Total Advertising.....	4,300,000	4,800,000	1.11	5,276,000	1.22	5,649,000	1.30
Total Merchandising Expenses.....	5,576,000	6,076,000	1.08	6,552,000	1.17	6,925,000	1.24

^a Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments, also standard Corporate Statistics.

TABLE IV⁶

A COMPARISON OF ENLARGEMENTS AND INCREASES IN CAPITAL STRUCTURE, SALES EXPENSES, PROFITS, AND DIVIDENDS, 1925-1930 INCLUSIVE

MERGER B	1925	1926	NUMBER OF TIMES EN- LARGED	1927	NUMBER OF TIMES EN- LARGED	1928	NUMBER OF TIMES EN- LARGED	1929	NUMBER OF TIMES EN- LARGED	1930	NUMBER OF TIMES EN- LARGED
Capital Stock.....	\$27,400,000	\$31,544,000	1.15	\$34,670,000	1.26	\$62,588,000	2.28	\$92,668,000	3.38	\$105,834,000	3.86
Surplus.....	12,200,000	16,387,000	1.34	20,200,000	1.65	30,300,000	2.48	39,206,000	3.21	43,077,000	3.57
Net Worth.....	39,600,000	47,931,000	1.21	54,870,000	1.38	92,888,000	2.34	131,874,000	3.33	148,911,000	3.76
Sales.....	123,352,000	124,912,000	1.01	132,046,000	1.06	180,849,000	1.46	328,466,000	2.66	345,422,000	2.80
Manufacturing Ex- penses.....	116,452,000	117,383,000	1.01	124,345,000	1.06	168,824,000	1.46	306,088,000	2.66	322,123,000	2.80
Profits.....	6,299,000	6,853,000	1.08	7,154,000	1.13	11,354,000	1.80	20,403,000	3.23	21,681,000	3.44
Earnings per share...	10.66	10.86	.....	10.32	.....	9.06	.....	5.50x2=11.00 ⁷	.....	5.12x2=10.24 ⁷	.....
Dividends.....	1,940,000	3,154,000	1.62	4,194,000	2.16	5,217,000	2.68	10,047,000	5.17	12,079,000	6.17
COMPANY F											
Capital Stock.....	37,000,000	37,000,000	1.00	37,000,000	1.00	37,000,000	1.00	39,000,000	1.05	39,000,000	1.05
Surplus.....	35,000,000	35,000,000	1.00	38,000,000	1.08	42,000,000	1.20	48,000,000	1.37	67,000,000	1.91
Net Worth.....	72,000,000	72,000,000	1.00	75,000,000	1.04	79,000,000	1.09	87,000,000	1.20	106,000,000	1.47
Sales.....	128,000,000	152,894,000	1.19	156,447,000	1.22	172,425,000	1.34	193,296,000	1.51	192,352,000	1.51
Manufacturing Ex- penses.....	95,674,000	114,802,000	1.19	110,048,000	1.15	124,994,000	1.30	137,501,000	1.43	133,868,000	1.39
Merchandising Ex- penses.....	19,885,000	22,053,000	1.10	24,752,000	1.24	27,833,000	1.39	31,794,000	1.58	31,932,000	1.60
Profits.....	13,306,000	16,066,000	1.20	21,437,000	1.51	18,470,000	1.38	22,159,000	1.66	25,521,000	1.91
Earnings per share...	8.62	10.11	.....	13.53	.....	11.82	.....	14.83	.....	16.70	.....
Dividends Not avail- able.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

⁶ Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments. Also Standard Corporate Statistics.⁷ Two to one split in shares.

TABLE V³
A COMPARISON OF SALES, MANUFACTURING EXPENSES, MERCHANDISING EXPENSES AND PROFITS, 1925-1930 INCLUSIVE

MERGER B	1925	PER CENT OF SALES	1926	PER CENT OF SALES	1927	PER CENT OF SALES	1928	PER CENT OF SALES	1929	PER CENT OF SALES	1930	PER CENT OF SALES
Sales.....	\$123,352,000	100	\$124,912,000	100	\$132,046,000	100	\$180,849,000	100	\$328,466,000	100	\$345,422,000	100
Operating Expenses.....	116,452,000	94	117,383,000	94	124,345,000	94	168,824,000	93	306,088,000	93	322,123,000	93
Profits.....	6,299,000	5	6,853,000	5	7,154,000	5	11,354,000	6	20,403,000	6	21,681,000	6
COMPANY F												
Sales.....	128,000,000	100	152,894,000	100	156,447,000	100	172,425,000	100	193,296,000	100	192,352,000	100
Manufacturing Expenses	95,674,000	74	114,802,000	75	110,048,000	70	124,994,000	72	137,501,000	71	133,868,000	69
Merchandising Expenses.	19,885,000	15	22,053,000	14	24,752,000	15	27,833,000	16	31,794,000	16	31,932,000	17
Profits.....	13,306,000	10	16,066,000	10.1	21,437,000	13	18,470,000	10	22,159,000	11	25,521,000	13

³ Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments. Also Standard Corporate Statistics.

TABLE VI^a

A COMPARISON OF ENLARGEMENTS AND INCREASES IN ADVERTISING AND MERCHANDISING EXPENSES, 1925-1930 INCLUSIVE

MERGER B	1925	1926	NUMBER OF TIMES ENLARGED	1927	NUMBER OF TIMES ENLARGED	1928	NUMBER OF TIMES ENLARGED	1929	NUMBER OF TIMES ENLARGED	1930	NUMBER OF TIMES ENLARGED
Magazine Advertising.....	\$545,000	\$592,000	1.08	\$738,000	1.30	\$510,000	.93	\$453,000	.83	\$493,000	.90
Newspaper Advertising.....	265,000	385,000	1.45	285,000	1.07	370,000	1.39	310,000	1.16	350,000	1.69
Total Advertising.....	810,000	977,000	1.20	1,023,000	1.26	880,000	1.08	763,000	.94	843,000	1.04
COMPANY F											
Magazine Advertising.....	2,585,000	2,590,000	1.00	2,723,000	1.06	3,402,000	1.61	3,607,000	1.39	3,803,000	1.46
Newspaper Advertising.....	400,000	510,000	1.27	350,000	.87	425,000	1.06	450,000	1.12	460,000	1.15
Total Advertising.....	2,985,000	3,070,000	1.03	3,073,000	1.03	3,827,000	1.28	4,057,000	1.35	4,263,000	1.42

^a Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments. Also Standard Corporate Statistics.

TABLE VII¹⁰

A COMPARISON OF ENLARGEMENTS AND INCREASES IN CAPITAL STRUCTURE, SALES EXPENSES, PROFITS AND DIVIDENDS, 1925-1930 INCLUSIVE

MERGER C	1925	1926	NUMBER OF TIMES EN- LARGED	1927	NUMBER OF TIMES EN- LARGED	1928	NUMBER OF TIMES EN- LARGED	1929	NUMBER OF TIMES EN- LARGED	1930	NUMBER OF TIMES EN- LARGED
Capital Stock.....	\$5,925,000	\$7,941,000	1.34	\$21,263,000	3.58	\$38,606,000	6.51	\$56,967,000	9.63	\$48,069,000	8.11
Surplus.....	7,659,000	9,812,000	1.28	9,347,000	1.22	9,293,000	1.21	11,824,000	1.54	15,134,000	1.97
Net Worth.....	13,584,000	17,753,000	1.30	30,610,000	2.25	47,869,000	3.52	68,791,000	3.06	63,203,000	4.65
Sales.....	27,368,000	46,896,000	1.72	57,287,000	2.09	101,037,000	3.68	128,036,000	4.67	117,463,000	4.28
Manufacturing Expenses.....	12,835,000	20,006,000	1.56	27,965,000	2.17	57,377,000	4.47	71,693,000	5.58	57,455,000	4.47
Merchandising Expenses.....	9,382,000	14,202,000	1.51	17,141,000	1.82	27,183,000	2.89	36,268,000	3.86	37,092,000	3.95
Profits.....	4,684,000	11,317,000	2.41	11,368,000	2.42	14,555,000	3.10	19,422,000	4.15	19,085,000	4.07
Earnings per Share.....	6.90	8.07	.....	7.92	.....	3.96	11	.....	11	.....	11
Dividends.....	1,689,000	6,734,000	3.98	7,472,000	4.42	14,610,000	8.65	14,878,000	8.80	15,581,000	9.22
COMPANY G											
Capital Stock.....	8,600,000	8,600,000	1.00	8,600,000	1.00	8,600,000	1.00	8,900,000	1.03	8,925,000	1.03
Surplus.....	3,264,000	4,000,000	1.21	5,000,000	1.53	6,500,000	2.05	6,500,000	1.99	7,590,000	2.25
Net Worth.....	11,864,000	12,600,000	1.06	13,600,000	1.14	15,500,000	1.30	15,400,000	1.29	16,515,000	1.30
Sales.....	21,566,000	21,820,000	1.01	22,273,000	1.03	23,367,000	1.08	23,732,000	1.10	22,946,000	1.06
Manufacturing Expenses.....	13,364,000	13,921,000	1.03	14,675,000	1.09	14,639,000	1.09	14,695,000	1.09	13,863,000	1.03
Merchandising Expenses.....	5,051,000	4,680,000	.92	4,830,000	.95	5,260,000	1.04	5,878,000	1.16	5,870,000	1.15
Profits.....	2,099,000	2,012,000	.95	2,301,000	1.09	2,768,000	1.31	2,702,000	1.28	2,465,000	1.17
Earnings per share.....	5.60	5.18	.....	5.25	.....	6.51	.....	6.06	.....	5.52	.....
Dividends.....	1,100,000	1,206,000	1.09	1,233,000	1.12	1,362,000	1.24	1,716,000	1.55	1,354,000	1.23

¹⁰ Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments. Also Standard Corporate Statistics.

¹¹ 100 per cent stock dividend.

TABLE VIII¹²
A COMPARISON OF SALES, MANUFACTURING EXPENSES, MERCHANDISING EXPENSES AND PROFITS, 1925-1930 INCLUSIVE

MERGER C	1925	PER CENT OF SALES	1926	PER CENT OF SALES	1927	PER CENT OF SALES	1928	PER CENT OF SALES	1929	PER CENT OF SALES	1930	PER CENT OF SALES
Sales.....	\$27,386,000	100	\$46,896,000	100	\$57,287,000	100	\$101,037,000	100	\$128,036,000	100	\$117,463,000	100
Manufacturing Expenses.....	12,835,000	46	20,006,000	42	27,965,000	48	57,377,000	55	71,693,000	55	57,455,000	48
Merchandising Expenses.....	9,382,000	34	14,202,000	30	17,141,000	29	27,183,000	28	36,268,000	27	37,092,000	31
Profits.....	4,684,000	17	11,317,000	24	11,368,000	19	14,555,000	14	19,422,000	15	19,085,000	16
COMPANY G												
Sales.....	21,566,000	100	1,820,000	100	22,273,000	100	23,367,000	100	23,732,000	100	22,946,000	100
Manufacturing Expenses.....	13,364,000	61	13,921,000	63	14,675,000	65	14,639,000	63	14,695,000	61	13,863,000	60
Merchandising Expenses.....	5,051,000	23	4,680,000	21	4,830,000	23	5,260,000	22	5,878,000	25	5,870,000	26
Profits.....	2,099,000	9	2,012,000	9	2,301,000	10	2,768,000	12	2,702,000	11	2,465,000	10

¹² Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments. Also Standard Corporate Statistics.

TABLE IX¹³

A COMPARISON OF ENLARGEMENTS AND INCREASES IN ADVERTISING AND MERCHANDISING EXPENSES, 1925-1930 INCLUSIVE

MERGER C	1925	1926	NUMBER OF TIMES ENLARGED	1927	NUMBER OF TIMES ENLARGED	1928	NUMBER OF TIMES ENLARGED	1929	NUMBER OF TIMES ENLARGED	1930	NUMBER OF TIMES ENLARGED
Magazine Advertising.....	\$3,474,000	\$3,875,000	1 14	\$3,816,000	1.09	\$3,611,000	1.03	\$4,090,000	1.17	\$3,443,000	.99
Newspaper Advertising.....											
Magazine Advertising.....	875,000	500,000	.56	750,000	.85	2,750,000	3.14	2,400,000	2.74	2,100,000	2.40
Total Advertising.....	4,320,000	6,900,000	1.59	7,980,000	1.84	13,130,000	3.30	12,800,000	2.96	15,210,000	3.52
Sales Promotion.....	1,350,000	2,070,000	1.53	2,280,000	1.68	2,727,000	2.02	640,000	.47	702,000	.52
Selling Expense.....	2,362,000	4,692,000	1.94	3,461,000	1.46	4,625,000	1.95	4,367,000	1.84	4,630,900	1.95
Total Merchandising Expenses.....	8,032,060	13,572,000	1.69	13,721,000	1.70	20,482,000	2.55	17,607,000	2.19	20,542,000	2.55
COMPANY G											
Magazine Advertising.....											
Magazine Advertising.....											
Newspaper Advertising.....											
Magazine Advertising.....	60,000	50,000	.83	55,000	.91	50,000	.83	70,000	1.16	71,000	1.18
Total Advertising.....	4,651,000	4,351,000	.99	4,392,000	.99	4,819,000	1.03	5,338,000	1.15	5,336,000	1.14
Selling Expenses.....	400,000	329,000	.82	438,000	1.09	441,000	1.10	520,000	1.30	534,000	1.33
Total Merchandising Expenses.....	5,051,000	4,680,000	.92	4,830,000	.95	5,260,000	1.04	5,878,000	1.16	5,870,000	1.16

¹³ Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments. Also Standard Corporate Statistics.

TABLE X¹⁴
**A COMPARISON OF ENLARGEMENTS AND INCREASES IN CAPITAL STRUCTURE,
 MERCHANDISING EXPENSES, PROFITS, AND DIVIDENDS
 1930-1931 INCLUSIVE**

MERGER D	1930	1931	NUMBER OF TIMES ENLARGED
Capital Stock.....	\$40,061,000	\$34,963,000	.99
Surplus.....	25,729,000	22,661,000	.88
Net Worth.....	65,790,000	57,624,000	.87
Merchandising Expenses..	30,581,000	32,600,000	1.06
Profits.....	16,449,000	13,655,000	.82
Earnings per share.....	.....	.....	.....
Dividends.....	19,034,000	15,173,000	.78
COMPANY H			
Capital Stock.....	\$1,455,000	\$1,455,000	1.00
Surplus.....	3,557,000	1,886,000	.53
Net Worth.....	5,012,000	3,341,000	.66
Sales.....	41,331,000	30,643,000	.74
Cost of Sales and Manufac- turing.....	39,331,000	30,934,000	.78
Profits.....	1,479,000	1,670,000	deficit
Earnings per share.....	2.33	.....	.....
Dividends.....	984,000	968,000	.98

¹⁴ Magazine Advertising—Crowell Publishing Company. Newspaper Advertising—American Newspaper Association. Total Merchandising Expenses and Total Advertising Expenses—Offices of the Companies or estimates. All other data—Moody and Poor Manuals of Investments. Also Standard corporate statistics.

TABLE XI¹⁵
**A COMPARISON OF RADIO ADVERTISING, MAGAZINE ADVERTISING AND
 NEWSPAPER ADVERTISING, 1927-1930 INCLUSIVE**

MERGER C	1927	1928	1929	1930
Radio Advertising.....	\$185,000	\$268,000	\$197,000	\$106,900
Magazine Advertising.....	3,816,000	3,611,000	4,090,000	3,443,000
Newspaper Advertising.....	750,000	2,750,000	2,400,000	2,100,000
COMPANY I				
Radio Advertising.....	.....	.....	7,300	57,300
Magazine Advertising.....	592,000	807,000	557,400	481,830
Newspaper Advertising.....	600,000	1,000,000	1,100,000	1,116,000
COMPANY II				
Radio Advertising.....	.....	.....	105,000	128,000
Magazine Advertising.....	281,000	273,000	291,000	144,000
Newspaper Advertising.....	575,000	450,000	250,000	120,000
COMPANY III ¹⁶				
Radio Advertising.....	.....	45,000	44,000	22,000
Magazine Advertising.....	544,000	399,000	431,000	322,000
Newspaper Advertising.....	319,000	354,000	383,000	591,000

¹⁵ Courtesy of the National Broadcasting Company and the Columbia Broadcasting Company.

¹⁶ In 1929 this company became a party to Merger D. The 1930 expenditures are for merger operations.

TABLE XII¹⁷

A COMPARISON OF RADIO ADVERTISING, MAGAZINE ADVERTISING AND
NEWSPAPER ADVERTISING, 1927-1930 INCLUSIVE

MERGER D ¹⁸	1927	1928	1929	1930
Radio Advertising.....			\$165,000	\$102,000
Magazine Advertising.....	\$1,900,000	\$1,507,000	1,629,000	3,005,000
Newspaper Advertising.....	1,000,000	1,000,000	1,225,000	2,000,000
COMPANY IV				
Radio Advertising.....			29,000	111,000
Magazine Advertising.....	1,233,000	1,368,000	1,159,000	1,178,000
Newspaper Advertising.....	900,000	700,000	120,000	150,000
COMPANY V				
Radio Advertising.....			144,000	95,000
Magazine Advertising.....	298,000	302,000	310,000	132,000
Newspaper Advertising.....	350,000	450,000	360,000	110,000
COMPANY VI				
Radio Advertising.....			42,000	33,000
Magazine Advertising.....	571,000	574,000	613,000	288,000
Newspaper Advertising.....	40,000	42,000	50,000	70,000

¹⁷ Courtesy of the National Broadcasting Company and the Columbia Broadcasting Company.

¹⁸ Expenditures prior to 1930 were for the constituent companies. The 1930 expenditures are for merger operation.

Company G has a merchandising program which makes use of sales promotion in territories where certain products encounter sales resistance. There are no surveys of markets and consumer reactions to the products, other than analysis of sales records. The middlemen in the more concentrated population areas are probably experiencing more rapid turnover of the company's products than in 1925. This seems to be due to the good success of the company's advertising in the development of consumer demand for its flavor-sealed products.

The data presented in the preceding tables shows the influence of changing selling organizations and methods, together with the sales promotion, advertising, merchandising administration and merchandising research activities of each company, upon its capital structure, sales, merchandising expenses and profits.

A complete analysis of what the mergers have or have not accomplished necessitates an interpretation of this data in relation to the merchandising problems incurred and in relation to the changes in method which have been made.

The third column in tables I, IV, VII and X, and each alternate column thereafter, shows the enlargement over the first year for which the table gives amounts. The first year is, therefore, the base year on which all the enlargements are computed.

For example, in 1925 the capital stock of Merger A was \$6,400,000. In 1926 the capital stock of Merger A was \$8,190,000. Dividing \$6,400,000, the base year figure, into \$8,190,000 gives an enlargement in the capital stock of 1.28 to 128 per cent. The increase in capital stock for 1926 over 1925 is .28 or 28 per cent. In 1927 the capital stock for Merger A was \$11,324,000. Dividing \$6,400,000 into \$11,324,000 gives an enlargement of 1.76 or 176 per cent. When the enlargement column contains an entry less than 1.00 that entry reflects a decrease. For example cost of sales including manufacturing expenses for Merger A was \$49,012,000 in 1925 the base year. In 1926 cost of sales was \$47,863,000. Dividing \$49,012,000 into \$47,863,000 gives .98 or 98 per cent. There has been a decrease in cost of sales of 2 per cent as compared with 1925.

The tables for Merger A do not show entries earlier than 1925 or later than 1928. The merger was organized in 1924 and was purchased by another company in 1928. The year 1925 was the first complete year of operations and in 1929 the merger accounts were consolidated with those of the purchasing company and its corporate existence was terminated.

The capital stock of Merger A and Company E was enlarged over the period. These enlargements were almost threefold at the end of the period for Merger A and less than twofold in the instance of Company E.

In the surplus account Merger A shows an enlargement each year whereas Company E shows surplus as constant until 1927. In 1927 and 1928 there was a decrease in surplus. Both companies are maintaining adequate surpluses relative to sales and profits and both companies have invested the major share of these surpluses in fixed capital.

The net worth entries reflect the total fixed capital, that is, the shareholders' investment, necessary to run the business. It is the net worth on which the company must show a satisfactory rate of earnings. For our purposes, therefore, the amounts and

trend of enlargements in net worth is a very important index relative to the amounts and trend of enlargements in sales, merchandising expenses, profits and earnings per share.

Net worth increased to a much greater extent for Merger A than for Company E. This is not surprising because Merger A has built sectional plants and warehouses while also purchasing many warehouses. This expansion of fixed capital was necessary in order to build national sales. Company E manufactures a syrup from which a soda fountain beverage is made. It does not need to expand its manufacturing equipment a great deal in order to increase its output. Company E had national sales in 1925 and its increase in net worth reflects a period of rather steady growth. Merger A was building national sales on products which prior to 1925 had sectional sales.

Merger A experienced an enlargement in cost of sales including manufacturing expenses greater than the enlargement in sales. Officials of the merger stated that whereas manufacturing costs per unit of volume and per unit of dollar sales had decreased, this was a period of rising prices and raw material costs were mounting over the period. In 1928 the board of directors, with the consent of a majority of the stockholders, decided to merge with a national holding company in the dairy industry. One of the major objects of this merger was to divert some of the milk, cheese and other raw materials of the holding company producing units to Merger A at less than market prices in order to reduce raw material costs.

Merchandising expenses for the merger show an enlargement in 1927 greater than the enlargement in sales. This was due to the fact that in this year Merger A had heavy advertising and selling commitments while introducing mayonnaise and mayonnaise products. A comparison of the ratio of merchandising expenses to sales for 1927 and 1928, however, shows a favorable reduction from 12 per cent of dollar sales to 9 per cent of dollar sales. In 1928 it cost the company \$7,381,000 to sell \$75,648,000 worth of its products, whereas in 1927, the promotional year for mayonnaise, it had cost the company \$7,464,000 to sell \$60,447,000 worth of its products. This is a fine showing for the merchandising efficiency of the merger and is in our estimation

an indication of the effectiveness of the new merchandising methods described in chapters II, III and IV.

Table III indicates that total advertising expenses decreased by \$122,000 in 1928 as compared with 1927. Of this reduction \$39,000 was spent in sales promotion activity making a net reduction in merchandising expenses of \$83,000.

Merchandising expenses for Company E show a greater enlargement than sales for every year of the period. These enlargements were entirely due to an increase in advertising. A comparison of 1928 and 1927 shows that Company E increased its sales \$4,000,000 with an increase of but \$373,000 in merchandising expenses. This illustrates the cumulative effect of past advertising. Comparing these same years for Merger A we find that the merger increased its sales \$15,201,000 and reduced its merchandising expenses by \$83,000. The superior showing of the merger is principally due to new merchandising methods including multiple-selling, although the cumulative effect of past advertising is also a factor.

Profits show a fine enlargement for Merger A in 1926 but a sharp decrease to 80 per cent of 1925 profits in 1927, due to a combination of increasing raw material costs and increased merchandising expenses. In 1928, however, profits again exceeded the 1925 figure. In 1928 profits were back to the 3 per cent of sales showing for 1925. Although the holding company officials refused to release dollar figures they intimated that in 1929 and 1930 profits again reached the 1927 6 per cent of sales.

Profits for Company E show an enlargement each year of the period. There is a greater margin of profit for beverages than for cheese and mayonnaise products. Likewise the problem of mounting raw material costs is not a factor. Merger A, however, has the advantage of reduced merchandising expenses and through merging with a holding company in the dairy industry has probably escaped mounting raw material costs.

Merger A earned 26 per cent on its net worth in 1925 and 10 per cent on its net worth in 1928. This is not a spectacular showing as compared with Company E which maintained a very constant earnings ratio of 25 per cent on net worth in 1925 and 26 per cent in 1928. Merger A's fixed capital increased much

more than sales. The profits earned would seem to indicate that Merger A will now grow up to its enlargement in fixed capital. Merger A's profits increased in 1928 as compared with 1927. It is necessary to interpret these earnings ratios to net worth, in view of the fact that the merger is building national sales on a varied line of products and in a highly competitive field, whereas Company E has a steady demand for its products and has no serious competition. Company E has a monopoly, its sales averaging between sixty and seventy per cent of total soft drink sales in the United States.

Earnings per share for both companies are very satisfactory. The decreases in per share earnings for both companies must be interpreted in view of the fact that total shares of stock outstanding have increased.

The capital stock of Merger B was enlarged almost fourfold over the period whereas the capital stock of Company F was enlarged only 1.05 over the period. In effect capital stock remained constant for Company F the increase being but 5 per cent.

The surplus account was enlarged each year in the instance of Merger B and at the close of the period was three and a half times the surplus of 1925, the base year. Surplus remained constant for Company F in 1926 and then increased until the end of the period, being almost twice the amount in 1930 as in 1925. Both companies seem to have maintained adequate surpluses relative to sales and profits and the major part of surplus was invested in fixed capital.

Net worth shows an enlargement of 3.76 or 376 per cent for the period in the instance of Merger B, and of 1.47 or 147 per cent for the period for Company F. Both Merger B and Merger A show a greater enlargement in net worth than Company E and Company F. These enlargements represent for both mergers an increase in fixed capital. In 1930 Merger A had a plant three and one-half times the size of its plant at the beginning of the period and Merger B had a plant at the close of the period three and three-quarters the size of its plant at the beginning of the period. The fixed capital of Company E had increased one and a quarter fold and of Company F one and a half fold during

this same period. These increases represent new productive equipment.

Merger B has been able to increase its sales almost threefold while increasing its net worth three and three-quarters fold, whereas Merger A increased its sales 30 per cent and its net worth three and a half fold. Sales increased in direct proportion to companies purchased and merged in the instance of Merger B, whereas sales increases for Merger A are less than net worth increases, but are a reflection of merchandising efficiency since Merger A purchased no additional companies during 1925-1930.

Merger B officials refused to supply figures for merchandising expenses but they stated that there has been slight reductions in selling expenses such as to offset increased delivery and manufacturing charges per unit of output. Table V shows that total operating expenses were constant in their relation to sales throughout the entire period. Company F has lowered its cost of sales and manufacturing for the period.

The merchandising expenses of Merger B did not increase at as great a rate as sales in any year of the period whereas the merchandising expenses increased at a greater rate than sales for Company F except in 1927.

Total advertising expenses were much less for Merger B than for Company F. A comparison of 1925 and 1930 shows that Company F increased its sales \$64,000,000 with an increase of \$1,278,000 in advertising expenditures. Merger B for these same years increased its sales \$122,070,000 with an increase of but \$33,000 in advertising. Promotion expenses increased for the merger, however, due to an additional use of demonstrations and displays. It must be remembered that Merger B's sales increases are due principally to the purchase of additional companies. Nevertheless, the advertising dollar brings far greater returns as the merger increases in its size and scale of operations.

Table VI shows that Merger B has reduced its magazine advertising in 1928, 1929 and 1930 while increasing its sales, and also spent less for newspaper advertising in 1928, 1929 and 1930 than earlier in the period. Company F spent more for magazine advertising each year than it spent the base year and increased its newspaper advertising each year except in 1927.

Profits show greater enlargements than sales for both Merger B and Company F in every year of the period. The enlargements in profits as compared with sales enlargements are greater for the merger than for Company F except in 1927. There is a greater margin of profit in the manufacture of soaps and cleaners than in the dairy industry. The average operating cost for Company F is 80 per cent and for Merger B 94 per cent. Merger B did not have the problem of mounting raw material costs which Merger A had to contend with.

Merger B earned 15 per cent on its net worth in 1925 and 15 per cent on its net worth in 1930. Company F earned 18 per cent on net worth in 1925 and 24 per cent in 1930. Merger B has maintained a constant ratio of earnings to net worth while expanding, reorganizing and adopting new merchandising methods. The profits ratio to dollar sales has increased and there have been reductions in advertising and merchandising expenses. With the realignment of sales territories now under way and with the cumulative effects of multiple-selling and sales promotion not yet realized, the profits ratio of Merger B should increase.

Earnings per share for both companies are very satisfactory. The decrease in earnings per share for Merger B in 1928 is due to an increase in capital shares. However, Company F had a decrease in profits in 1928 due to increased cost of sales, manufacturing, and merchandising expenses relative to sales. Merger B earned \$9.06 per share of stock in 1928 and \$5.50 per share of stock in 1929. There was a two to one split in shares in 1929 so that the earnings on the old share basis were \$11.00 in 1929 and \$10.24 in 1930.

The capital stock of Merger C was enlarged eightfold over the period whereas the capital stock of Company G remained practically constant, the increase being 3 per cent in 1930 as compared with 1925.

The surplus account was reduced slightly in 1927 and again in 1928 but in both of these years surplus was larger than in 1925, the base year. At the close of the period surplus was 197 per cent as compared with 1925, an increase of 97 per cent or almost double. Surplus for Company G fell off slightly in 1929

to take care of an increase in dividends but in each of the other years surplus was enlarged. At the close of the period Company G had a surplus enlargement of 225 per cent as compared with 1925. Both companies seem to have adequate surpluses relative to sales and profits. The major part of surpluses was invested in fixed capital.

Net worth shows an enlargement of 4.75 or 475 per cent for the period in the instance of Merger C and of 1.30 or 130 per cent for the period for Company G. These enlargements represent an enlargement in fixed capital. Merger C continued to purchase and merge companies during 1925, 1926, and 1927 and this accounts for the enlargement. Company G increased its net worth for new fixed capital, chiefly in the form of new productive equipment.

Merger C has enlarged its sales four and a quarter fold while enlarging its net worth four and six-tenths fold. Company G enlarged its sales one and six-hundredths while enlarging its net worth one and three-tenths fold. This is a better showing for the merger than for Company G, when we consider the reorganization necessary to the merger, and is a more favorable showing for Merger C than for Merger A and Merger B which had sales enlargements of one and three-tenths and two and eight-tenths respectively for the period, as compared with enlargements in net worth of three and a half fold and three and three-quarters fold.

Merger C experienced an enlargement in cost of sales including manufacturing expenses greater than the enlargement in sales. The period 1925 to 1930 was one of rising prices and the company had some high raw material costs during the period, chiefly for coffee. Table VIII shows that cost of sales and manufacturing was 48 cents of each sales dollar in 1930 as compared with 46 cents in 1925. The cost rose to 55 cents of each sales dollar in 1928 and 1929 reflecting the increase in the general level of prices. Although the manufacturing plants of the purchased companies have not been consolidated, some of these companies had less efficient manufacturing methods than the merger incurs now that it has become a smoothly coordinated manufacturing unit.

The merchandising expenses of Merger C reflect the efficiency of the new methods put into operation by the merger. The enlargement in merchandising expenses was less in each year of the period than the enlargement in sales and profits and this is the only company included in our study which achieved this result. The ratio of merchandising expenses to sales shows a reduction in every year of the period except 1930. Merchandising expenses were lowered from 34 cents expenses for each dollar of sales in 1925 to 30 cents in 1926, 29 cents in 1927, 28 cents in 1928 and 27 cents in 1929. There was a sharp drop in the general price level in 1930 which reduced the total dollar sales of the company even though total volume sales increased slightly. In 1930 merchandising expenses showed an increase from 27 cents to 31 cents as compared with 1929, due to this decline in dollar sales together with increased advertising and merchandising expenditures. These advertising and merchandising increases are in keeping with the company's policy of spending more on building up sales in periods of business depression in order to secure a greater increase in sales when an upturn in business occurs.

In 1929, the fifth year of merger operations, it cost the company \$36,268,000 to sell \$128,036,000 worth of its products, whereas in 1925, the first year of merger operation, it cost the company \$5,051,000 to sell \$21,566,000 worth of its products. Considering the period as a whole sales increased \$90,000,000, merchandising expenses increased \$28,000,000 and profits increased \$5,000,000.

Total advertising expenses were enlarged for the period but at a less rate than sales, profits or merchandising expenses. In 1929 total advertising expenses were reduced \$330,000 as compared with 1928; sales were \$128,000,000 in 1929 as against \$101,000,000 in 1927. This is a reflection of the cumulative effect of efficient advertising.

Merchandising expenses for Company G show a decrease for 1926 and 1927 but sales remain practically stationary. The company had given exclusive selling rights to a chain-store company which accounts for this reduction in merchandising expense, since increases in sales were not commensurate with what had been expected from this change in the channels of

distribution. The years 1928, 1929 and 1930 show an enlargement in merchandising expenses which reflect a return to the wholesaler-independent retailer channels of distribution. Merchandising expenses show an increase over the period relative to sales, whereas merchandising expenses for Merger C show a decrease for each year relative to sales. This is an indication of the superior merchandising ability of the merger. A comparison of merchandising expenses shows that this merger also has superior merchandising ability to that of the other companies included in this study.

Profits show greater enlargements than sales in each year of the period for Merger C. Profits show a decrease for Company G in 1926, a slight increase in 1927, an enlargement to 128 per cent in 1929 and a decrease to 117 per cent in 1930. Merger C earned 34 per cent on its net worth in 1925 and 31 per cent on its net worth in 1930 as compared with Company G which earned 17 per cent on its net worth in 1925 and 14 per cent on its net worth in 1930. The fact that profits were enlarged much more than sales when compared with the still smaller enlargements in merchandising expenses is a very favorable sign for the merger. Several millions of dollars have been invested in new products and merchandising methods annually, and with the passing of time there will probably be a reduction in the amounts invested in this manner, and also sales will increase due to the cumulative effect of the merchandising methods. Frozen foods are the most promising feature in this respect. All in all the prospects for an increased rate of profit are very bright.

The earnings per share of Merger C are very constant over the period considering the reorganization of operations and have been maintained while increasing the number of capital shares eightfold. With any reduction in capital shares earnings per share will increase. Company G has not increased its capital shares to speak of, therefore, its earnings per share are not so impressive. The earnings for Merger C in 1928, 1929, and 1930 are in reality twice the amount shown in the table because there was a 100 per cent stock dividend in 1928.

Merger D was organized in 1929 and we, therefore, have only two years record of operations. The merger shows declines

in profits and increases in merchandising expenses. It is unfortunate that the management will not release sales figures because without them there is no measure of merchandising efficiency. This merger is attempting direct truck distribution on a scale never before attempted in the food industry, and is attempting to build national sales of certain sectional products. Therefore its ratio of merchandising expenses to sales would be of extreme interest.

Company H shows declines during the two-year period. A two-year period is of course too short to measure efficiency or trends. However, the earnings record of the company over a longer period show satisfactory earnings excepting in two years when there were deficits. The similarity of the two-year record for Merger D and Company H and the fact that both are introducing sectional products on a national scale suggests that both companies show declines because of the interaction of heavy merchandising disbursements and a period of falling prices, rather than because of any inherent weakness in their financial or operating structure.

Total advertising expenses in dollars expended declined over the period for Merger A, remained constant for Merger B and increased for Mergers C and D. In the instance of the independent companies total advertising expenses increased in dollars for Company E, Company F, Company G and Company H. All eight companies had an advertising expense lower per dollar of sales at the end of the period than at the beginning of the period. The mergers have the best showing with Merger C taking the first place. Enlargements in total advertising decreased relative to 1925, the base year, for Merger B in 1928, 1929 and 1930. Enlargements were greater for Mergers A and C in every year of the period except in 1930. In Merger D there was an enlargement in 1931 as compared with the base year 1930.

Magazine advertising enlargements occurred for Mergers A and C in every year of the period except 1930. In 1930 Merger C showed a decrease in magazine advertising. There is a tendency to decrease magazine advertising relative to the base year for Mergers B and C with decreases in 1928, 1929 and 1930 for Merger B and with decreases in 1928 and 1930 for

Merger C. Independent companies F and G show decreases in 1929 and in 1927 and 1928 respectively. The trend of magazine advertising is toward decreases in the rate of enlargement while sales are increasing, for both the mergers and the independent companies. Since total advertising enlargements are increasing this means that the mergers and independent companies are both spending more of their advertising appropriations for media other than magazines. In general, reductions in magazine advertising are more numerous and of larger amounts for mergers than for the independent companies.

Newspaper advertising shows enlargements in three years of four for Merger A, show enlargements in each year but decreases in amounts in 1927, 1928 and 1929 as compared with 1925 for Merger B and show enlargements for 1928, 1929 and 1930 for Merger C. There were decreases for Merger C in 1926 and 1927. Merger D newspaper advertising increased in 1930 as compared with 1929. The independent companies show decreases in 1927 and 1928 and an increase in 1929 for Company E, enlargements for each year except 1927 for Company F and for Company G decreases in 1926, 1927 and 1928. No advertising figures are available for Company H.

Through the courtesy of the National Broadcasting and Columbia Broadcasting Systems, radio advertising expenditures are available for Merger C, Merger D and for six independent national food products manufacturers. The six independent companies reported are all companies which have not been used elsewhere in this study and therefore the comparative trend for magazine advertising, newspaper advertising and total advertising in the instance of these, the two mergers and six independent companies, is of great interest. If the trend is the same as in the instance of Company E, F and G, we have another measure of the effect of mergers on advertising efficiency.

Mergers C and D increased their magazine and newspaper advertising appropriations while using radio advertising. Radio advertising was not at the expense of magazine and newspaper advertising. Three of the independent companies increased their magazine advertising, and three companies decreased their magazine advertising in order to engage in radio advertising.

SUMMARY

PERSONNEL OF THE MERCHANDISING ADMINISTRATION

MERGERS	CONSTITUENT COMPANIES PRIOR TO MERGERS	INDEPENDENT COMPANIES
Merger A.... General Sales Manager Advertising Manager and the Executive Vice-Presi- dent	President or General Manager	Co. E..... General Man- ager
Merger B.... Vice-President in Charge of Sales General Sales Manager Advertising Manager	President or General Manager	Co. F..... Vice-President in Charge of Sales General Sales Manager Distribution Manager
Merger C.... Executive Vice-Presi- dent Vice-President in Charge of Sales Vice-President in Charge of Advertising	President or General Manager	Co. G..... General Manager
Merger D.... Executive Vice-Presi- dent Vice-President in Charge of Sales Vice-President in Charge of Advertising	President or General Manager	Co. H..... General Man- ager President

The administrative officers of mergers in the packaged food products industry have brought about reorganizations and new types of organizations based on new sales and merchandising policies. Educational efforts are organized and directed from the new department of research and from the staff sales and advertising organizations. In the instance of the mergers the field sales organization and the staff organizations become co-operative with the research department. Fact finding becomes an important adjunct to selling and merchandising activities.

The most notable change in administrative organization which the mergers have caused is the setting up of a line and staff organization while still maintaining the old line up of departments each of which are in charge of a vice-president. The tendency is to integrate the merchandising function on the basis of planning and performance and have the chief administrative officer or groups make the ultimate decisions. There is some tendency to have the merchandising administration make all basic company decisions. This already maintains in Mergers A and C. The evolutionary struggle by way of changing organizations and methods is between the older generations of officers who still think departmentally, that is, in terms of the accounting department, sales department, production department, etc., and the new type of merchandising administration which thinks in terms of a line and staff organization to plan all company activities in terms of changing buying habits and the consequent demand for new products. The line and staff type of organization cuts across the departmental type of organization in that each new product or use is studied by a staff group whose members represent all the functions. Merchandising, production, accounting, etc., are all represented.

In the instance of the mergers, sales enlargements were much greater than in the instance of the independent companies. Merger A had a decrease in one year out of three of its corporate existence. Mergers B and C had enlargements each year which were much greater than the independent companies F and G. No sales figures are available for Merger D. Sales decreased for Company H and it experienced a deficit in 1931. In that same year Merger D suffered a sharp decline in earnings.

Manufacturing costs and costs of sales show enlargements greater than sales for the mergers and for Company G.

Merchandising expenses for the mergers show enlargements which are not as great as sales. In the instance of the independent companies merchandising expenses show greater enlargements than sales. This means that it costs the mergers less to sell a dollar's worth of products than it costs the independent companies.

There have been savings in merchandising expenses for the

mergers, principally due to the use of multiple-selling which reduces the number of salesmen needed to sell a given territory, and a more effective use of advertising space. Total dollar selling and advertising expenses have increased due to the fact that the mergers are built up sales through the addition of specialty men and due to sales and advertising efforts for frosted foods. When the promotional work is complete for these products the mergers will show even a greater merchandising efficiency.

Total advertising decreased for Merger A, was constant for Merger B and shows enlargement for Mergers C and D. Advertising expenses per dollar of net sales were lower for the merger at the close of the period and were decreasing over the entire period. Total advertising expenses show enlargements for the four independent companies at the end of the period and in most years during the period of the study. Advertising expenses per dollar of net sales were higher for the independent companies at the close of the period and were increasing over the entire period.

At the close of the period magazine advertising shows enlargements for two mergers and decreases for two mergers. The trend is downward for the mergers, that is, the actual amounts spent became less. In the instance of the independent companies magazine advertising shows enlargements and a steady upward trend.

Newspaper advertising shows enlargements in recent years, but fall off in amount of dollars spent toward the close of the period, excepting Merger D which commenced operations in 1930 and shows enlargements in all merchandising expenses. The independent companies show enlargements in recent years and little tendency to reduce appropriations. The trend is toward increased expenditures over the period.

Merger A spends less than \$40,000 annually in radio advertising. The amount is fairly constant since 1927. Merger B's radio advertising appropriation is not available. Merger C decreased its radio advertising in 1929 along with a decrease in all advertising appropriations, but in 1930 the merger increased total advertising and decreased radio, magazine and newspaper advertising. The terrific increase in total advertising was due to frosted foods advertising, the large scale use of outdoor ad-

vertising for the first time and an enormous increase in free deals in order to maintain retailer cooperation in a period of falling prices and profits. The radio advertising for those companies studied shows an increase in total advertising appropriations after radio advertising was used.

The mergers had greater enlargements in profits than the independent companies. In the instance of Merger A enlargements in profits exceeded sales enlargement or was the same as sales enlargement excepting in one year. For Mergers C and D profits enlargements exceeded sales enlargements in every year of the five-year period. Profits have decreased for Merger D and Company H shows a deficit in 1931. Merger D and Company H were caught by the interaction of falling prices and increased merchandising expenses, chiefly advertising, because of promotional activities.

The earnings per share are more favorable for the independent companies E and F than for Mergers A and B. The earnings per share for Merger C are more than for Company G. No comparison is possible for Merger D and Company H. Earnings per share for the mergers must be interpreted in the light of the increase in the number of capital shares. Capital shares for the independent companies did not increase as much as did capital shares outstanding for the mergers.

With the exception of Merger C, dividends for those companies which reported dividends, have remained fairly constant per share. Merger B had a two to one split in shares but the amount of dividends are the same on the basis of the old shares. Merger C is the only company of those studied reporting dividends where the stockholders have benefited to date by a significant increase return on their investment. This company declared a 100 per cent stock dividend in 1928. From that date until the close of the period the stockholders received approximately twice their former dividends.

V

THE STATUS OF THE CONSUMER OF PACKAGED FOOD PRODUCTS
AS AFFECTED BY THE MERCHANDISING ACTIVITIES OF
FOUR MERGERS AND FOUR INDEPENDENT
MANUFACTURERS

The purpose of this chapter is to determine the status of the consumer of packaged food products as affected by the merchandising activities of mergers and certain independent manufacturers.

Consumption is the ultimate aim of all economic activities. Products and services are purchased by the ultimate consumer because they have utility. Utility is the power of a product to give satisfactions and enjoyments. These satisfactions and enjoyments arise from one, several or all of the following attributes of the product:¹

Physical characteristics
Newness or novelty
Aesthetic appeal
Price

At first packaged food products manufacturers sold food products entirely on the basis of their physical characteristics. The mergers were the first packaged food products manufacturers who attempted control of the channel of distribution.² These mergers also made the major attempt to guarantee standards of quality and to guarantee no deterioration of the product before it reached the ultimate consumer. In as much as the mergers have succeeded in these guarantees the consumer has benefited by receiving a product of greater utility. In addition the mergers have been the leaders in the development of new products, in the introduction of a greater aesthetic appeal in the products and their containers, and in the introduction of lower prices.

¹ Hereafter we shall use the term product to signify either a product, proposition or service.

² Chapter I, page 4.

The basic factors governing the consumption of food are (a) The seemingly unlimited capacity of the American consumer to desire new products of greater utility and (b) The consumer's capacity for eating. The American consumer's capacity to desire new products offers ample opportunity for the food products manufacturer to introduce new and improved products, and thereby increase his profits.³

The consumer's capacity for eating limits the total amount of food that an individual will consume over a given period of time. This limit, however, is not absolute. Certain basic factors cause the total amount of food consumed per capita to vary over long and sometimes over short periods.⁴ During such periods the amount of specific foods consumed also varies. These basic factors are set in operation by changes in our mode of living, which changes are in turn caused by changes in the industrial system. Changes in the industrial system are brought about by the competitive struggle of entrepreneurs for profits and by the findings and inventions of science. Once new products are presented, and the public commences to purchase the products, the public in turn puts pressure on business management to develop additional products and uses.

One of the major results of the introduction of packaged food products has been an increase in the housewife's leisure time. The factory has relieved the housewife of much of the hard labor of the kitchen and has reduced the amount of time necessary for the preparation of meals. The factory system, however, has also caused centralization of large numbers of our population in cities, where production can be conducted on a large scale. More recently adverse living conditions in many of these production centers, together with the development of high speed transportation, have caused a movement from the cities to the suburbs.

Other basic factors which have helped to change our habits

³ *Recent Economic Changes*, McGraw Hill Book Company, Preface, Introduction and Chapter I. Also discussion of Food Products.

⁴ These factors are not directly subject to control by entrepreneurs but once in operation these factors often force entrepreneurs to increase the utility of their products and to develop new products. See table on page 140.

of food consumption are: health concepts and dieting, the automobile, the apartment house and steam-heated buildings, the lack of exercise, the increase in aesthetic standards in foods, and the increase in restaurant and hotel eating. Increased purchasing power and some tendency to look upon foods as luxury purchases have perhaps aided the merchandising of food products, though to a slight extent. The average consumer still looks upon food purchases as one place where he can practice economy.

The combined action of these forces, together with the merchandising activities of business managers,⁵ has caused a shift from the consumption of heavy, energy producing foods purchased in bulk to a consumption of packaged food products of lower calory content. The consumption of dairy foods, sea foods in season, fresh fruits, vegetables and health cereals has enormously increased.⁶

The mergers have developed many new packaged food products such as: process cheeses of standard and new varieties, portions of imported cheeses, new sandwich preparations, and salad ingredients. They have also developed ingredient products used in cooking, quick frozen foods of many varieties, health foods and drinks, quick setting gelatin desserts and new varieties of baked goods.

The increase in consumer utility resulting from this introduction of new products and processes is notable. Increased leisure time, and city or suburban living, mean more entertaining. These products facilitate easy entertaining and the companies send out recipe books with tempting and easy recipes. The companies have further increased the consumer utility of their products by improving the quality of their products and by increasing the number of their packaged food products. This maintains the consumer's interest because of the variety of choices being constantly offered. Moreover, this is a very important service to the consumer who is dependent upon the factory and the retail store for most of his food products. The

⁵ The activities of these managers, involving the introduction of new products, and these basic factors are reciprocally interactive.

⁶ *Recent Economic Changes*, McGraw Hill Book Company, New York.

elimination of the seasonal factor in the instance of quick frozen sea foods, fresh fruits and vegetables is an additional source of increased utility to the consumer. The standardized packaged product can be purchased by telephone or if purchased at the store display case there is no necessity to wait while the product is weighed. Additional sources of increased utility are the new small units of the products, which can be entirely consumed at one meal,⁷ and the lower prices on many of the products. Many of these new packaged products require less time and fuel in preparation than do the bulk food products which they replace.

When a merger offers a line of integrated food products it is in a position to show the middleman the opportunity of and the methods of securing maximum food purchases from the consumer. When consumers commence to think of the entire group of products which the merger is merchandising, additional appeals can be used to increase sales to a still greater extent. These appeals are: the consumer's time is saved, sales of food products in combinations can be offered at attractive price reductions, the consumer begins to experience and appreciate a greater variety of food combinations and possibilities, and to learn to like new flavors. As the consumers commence to appreciate and demand these various advantages the manufacturers and middlemen must stand ready to furnish additional products, flavors, combinations of products and price reductions. In the instance of the younger generation the opportunities for creating new conceptions of foods and new food products are especially bright since this generation is much less traditional than the older generation in its attitude toward consumption. Already the mergers have done much to make the high school student aware of their line of quality products. Contact with high school home economics departments is the usual method.

The principal consideration governing the mergers in the introduction of these new products and processes is the attempt to overcome any deterioration of the product between the time it is manufactured and the time it reaches the ultimate consumer.

⁷ There is no waste or spoilage. Moreover, these small units can be kept in the small refrigerator.

Retail grocers cannot master the immense amount of technical and practical knowledge necessary for keeping foods as they should be kept. Furthermore, many of these retailers are stupid and careless. Others are dishonest and sell inferior merchandise. Even with all the developments of standardized quality products which are packaged and branded, there are many opportunities for the dishonest retailer to take advantage of the consumer. Many persons buy inferior products to fill all of their food requirements without realizing that they do so.

When the manufacturer assures the consumer of freshness in his mayonnaise products by means of direct delivery to the retail store each week, the manufacturer has increased the utility of his product. Mergers A and C furnish this service. These companies also deliver cheeses and ingredient products direct to the retail store.

Coffee was long thought to be a non-perishable product but experiments conducted in the laboratories of Merger D showed that oxygen in contact with the coffee caused it to lose its flavor and aroma and that then the oil in the coffee became rancid. Merger D now delivers coffee each week and collects all coffee which has been on the retailer's shelves ten days. Merger C packs its coffee by a special process which removes practically all the oxygen from the can.

In the instance of quick frozen foods Merger C has guaranteed the quality of meats, sea foods, fresh berries and fresh vegetables. Although these products are being constantly improved through laboratory experiment, sales are very satisfactory in those sections where the products have been introduced. This indicates that many consumers consider these foods to have greater utility than these same foods sold in bulk. A certain amount of variation in the cut and quality of bulk meats is unavoidable; often the consumer purchases inferior meat, and in many seasons fresh fruits and vegetables are not available for consumption. Quick frozen meats are of uniform high quality and the seasonal factor is eliminated.

The independent manufacturers included in this study have developed certain new products since the advent of the merger. These products are: new cleansers, soaps, new bottled foods and new packaged foods.

Health concepts, dieting and the vogue of the slender form are additional factors affecting changes in our habits of food consumption. These factors are nation-wide in operation, but as yet have little scientific medical knowledge to substantiate them. As a result of opinions expressed in personal interviews with over thirty doctors of medicine we have determined: (1) That there is an absolute agreement among these doctors that each individual is a law unto himself. Foods which cause one person to gain weight cause another person to lose weight. Each person who wishes to solve the problem of healthful eating must determine through experiment how his body reacts to various foods. (2) That a majority of the physicians interviewed say overeating is the most common dietary error, but that many persons now go to the other extreme and undermine their health in an effort to secure the slender figure. (3) That the chief defect in the choice of what foods to eat is the almost universal over-indulgence in starch and fat producing foods.⁸ Many physicians said that potatoes and bread should not be eaten at the same meal. (4) That the vitamins contained in fresh fruits, sea foods, and fresh vegetables are beneficial, and that these foods should be eaten in a greater abundance than is evident by the average consumption of these foods.

In view of these general rules it is possible to determine the extent to which the companies included in this study merchandise foods on the basis of their healthful qualities. Such merchandising benefits the consumer in so far as the health properties of the foods are increased and in so far as the consumer is educated to value these properties.

The advertising of Merger A advising the substitution of process cheese for meat is in favor with these physicians since the eating of cheese and meat make for excessive consumption of calories. Pasteurizing and processing increases the healthful properties of these cheeses. These processes increase the utility of the products. According to a majority of the physicians the health beverage and health food advertising of Mergers A, B, C

⁸ It is advisable not to exceed two thousand calories daily unless doing manual labor. From thirty-five hundred to four thousand calories are necessary for the manual laborer.

and D is somewhat exaggerated but these foods do have health properties if consumed with sufficient quantities of meat or cheese. Meat or cheese furnishes protein in quantities sufficient to maintain the basic cell structure of the body. Mayonnaise products and sandwich preparations are not harmful in themselves, but they are fat-producing foods and most persons eat them in too great quantities. There is a tendency for the mergers to advertise the use of these goods in connection with cheese and meats. Quick frozen sea foods are beneficial according to the physicians and should be eaten once or twice a week. However, if oysters or clams are eaten, the consumption of potatoes and bread should be reduced, since oysters and clams contain a large per cent of fat. Many of the physicians agreed that, if Merger C successfully introduces frozen sea foods for all year consumption in the middle west and other inland sections, there will be a distinct gain in more healthful eating. Sea foods are high in iodine content and, therefore, it is claimed would aid in overcoming the prevalence of goiter, found in such states as Ohio and Michigan. In the instance of "eat yeast for health" advertising, every physician interviewed stated in no uncertain terms that such advertising was malicious since it implied that yeast was beneficial for all persons, whereas yeast should only be eaten in cases prescribed by a physician.

The independent manufacturers G and H have also been quick to advertise the healthful properties of their products. These companies emphasize the energy giving properties of their foods.

All four of the mergers and independent companies G and H have instituted home economics departments in an attempt to educate the consumer how to secure the maximum in satisfactions and enjoyments from the company's food products. Booklets are sent to the consumers which contain many attractive recipes. These recipes facilitate easy entertaining at bridge parties and other informal gatherings. Instruction in meal planning is broadcast by radio. Balanced meals and the health feeding of children are featured in these broadcasts and in the printed advertising of the companies.

At present Merger A is developing new varieties of process

BASIC FACTORS CHANGING OUR HABITS OF FOOD CONSUMPTION	PRODUCTS AND PROCESSES DEVELOPED BY MERGERS	INCREASED CONSUMER UTILITIES DEVELOPED BY MERGERS	PRODUCTS AND PROCESSES DEVELOPED BY INDEPENDENT MANUFACTURERS	INCREASED CONSUMER UTILITIES DEVELOPED BY INDEPENDENT MANUFACTURERS
Increased Leisure.....	Improved quality of the products (A, B, C, D)	Freshness—mergers guarantee no deterioration of products	Improved quality of the products (F, G, H)	Products of standard quality
The trend from rural to city living.....	Increased packaged foods as com- pared with bulk goods (A, B, C, D)	Products of standard quality	Increased packaged foods as compared with bulk foods (F, G, H)	More convenient purchasing Easier entertaining
The trend from urban to suburban living...	New Products: Process Cheese (A) New Cheeses (A) Imported cheeses in portions (A) New Sandwich spreads (A, C) Mayonnaise products (A, C) Ingredient Products (A, B, C, D) De-oxygenized coffee (C) De-caffined coffee (C) Dated coffee (D) Quick frozen foods (C) Steaks, chops, roasts, fish fillets, oysters, clams, fresh berries, peas, spinach, beans Quick setting gelatin (D) Health foods and drinks (A, B, C, D) Home Economics Departments (A, B, C, D) New products in laboratory stage: Frozen chicken (C) Improving offrozen peas (C)	The seasonal factor eliminated More convenient purchasing Easier entertaining Greater variety of food products Economy—many price reduc- tions. No purchase of waste bone and fat in frozen meats Less time and fuel for preparation New uses, recipes, etc., instruc- tion in meal planning Balanced meals for health Extension of guarantee of no deterioration Better quality More standardized products	New Products: New varieties of bottled foods (C) New varieties of picnic foods (G, H) Canned chicken and ham (H) New types of cleansers and soaps (F) Home Economics departments (G, H) New products in laboratory stage: Manufacturers who are improv- ing present products (F, G, H)	Greater variety of products Economy—some price reductions New uses, recipes, etc. Instruction in meal planning Better quality More standardized products
Health concepts and dieting				

	Selective Irradiation vitamin-treated foods	More health foods	More health foods
	Frozen meals of thirty varieties (C) Cheeses (Ingredients) (A) Ingredients, milk foods Ice cream, frozen fruit juices (B) New varieties of pickles, fruits and jellies (D) Process cheese, sandwich spreads, mayonnaise products, quick frozen foods, ice cream packed with dry ice (A, B, C, D)	Economy—less waste, fuel, and labor More variety in meals Quick preparation of meals Greater variety of picnic foods	Economy—less fuel waste and labor Convenient sizes Greater variety of picnic foods
The automobile.....			
The apartment house and steam-heated buildings.....	Packaged foods of small units (A, B, C, D) Quick frozen foods (C) Sea foods, frozen fruits, vegetables (C) Process cheese, salad ingredients (A, C, D) Dairy products (B) Health foods and drinks (A, B, C, D) Attractive packaged foods replace bulk products (A, B, C, D) Frozen packaged vegetables, sea foods, and fruits replace bulk purchases of these food products	Convenient packages which fit the small kitchen and refrigerator Frozen foods need less oven heat Less energy producing foods Laxative foods Greater aesthetic appeal	Convenient packages which fit the small kitchen refrigerator Greater aesthetic appeal
Aesthetic standards in foods.....			
Restaurant and hotel eating.....	Special products and packing for restaurant and hotel use (A, B, C, D)	Special products and packing for these agencies (F, G, H)	Greater variety in meals

cheese, new ingredient products and new dairy foods. Merger B experiments with new ingredient products, new milk foods and new varieties of ice cream. Merger C continues to experiment with its quick freezing process. Frozen whole chickens and turkeys, in cellophane wrapping, have been introduced for the present holiday season, but the laboratories hope to improve these products. Merger C expects to improve quick frozen peas, through a search for the best variety of peas for freezing. Another experiment of Merger C aims at the impregnation of foods with vitamins. This company also expects to freeze thirty varieties of meals. The consumer will consult a booklet, select a meal and order by number. Merger D is experimenting with yeast products, coffee, and a line of pickles, fruits and jellies.

SUMMARY

1. Both the mergers and independent companies have improved the quality of their products.

2. The mergers have attempted to guarantee standard quality and no deterioration of coffee, gelatin, yeast, cheese and mayonnaise products by means of weekly delivery direct to the retail store. Mergers have also introduced de-caffined coffee.

3. The independent packaged food products manufacturers have attempted to guarantee no deterioration of gelatin, yeast, cheese and mayonnaise products.

4. Merger C has introduced a line of quick frozen fresh meats, sea foods, vegetables and fresh fruit. This is the first attempt of any manufacturer to guarantee uniform high quality of these foods and to guarantee no deterioration of such products from the time of manufacture until the products are consumed.

5. Frozen foods eliminate the seasonal factor in the purchase of fresh meats, sea foods, vegetables and fruits.

6. Frozen foods have greater aesthetic appeal than the same articles purchased in bulk. They are more convenient to purchase than are the bulk products.

7. Frozen meats are more economical than bulk meats. The price is but a few cents higher and there is no paying for waste bone, fat and gristle. Fuel requirements for cooking are less than for bulk meats. Some fruits and vegetables are expen-

sive, but mass sales will permit lower prices. Many frozen vegetables, sea foods and fruits are as cheap as in bulk purchases.

8. No independent manufacturer has seriously attempted to merchandise quick frozen foods.

9. The mergers have introduced a greater variety of new products than have the independent manufacturers included in this study.

10. The mergers have made more price reductions during the period covered by this study than have been made by the independent companies. This is a profitable move for both the mergers and the consumers.

11. The mergers are merchandising laxative foods, health foods and drinks. In our estimation the mergers are the most aggressive merchandisers of health foods and health drinks in the industry.

12. All of the mergers studied and Companies G and H have home economics departments. The mergers without exception do more thorough advertising through their home economics departments than do the independent Companies G and H. The fact that the mergers have a greater variety of products permits them to alter their sales approach more effectively in terms of seasonal appeals. Merger C through its home economics department advertises the balanced meal.

13. The mergers lead the independent companies in the number of new products and processes being developed, but still in the laboratory stage. Merger C again heads the list with frozen chicken and turkey, improved frozen peas, selective irradiation—a process for impregnating foods with vitamins, frozen meals of thirty varieties which will be ordered by number, and new cereals. Merger A is developing new cheeses and mayonnaise products, Merger B is developing new products used in cooking and also milk foods, ice cream and frozen fruit juices, while Merger D is developing new pickles, canned fruits, condiments, jellies, puddings and gelatins. With the exception of Company F which is developing several new cleaners and Company H which is developing some soups and experimenting with canned flavor-sealed roast beef, the independent companies included in this study are concentrating their laboratory work

on the improvement of their present products. In our estimation these independent companies are not giving sufficient attention to the developing of new products to augment their lines.

14. When the products which are being developed in the laboratories of Merger C are introduced on a market scale, the guarantee of no deterioration and of uniform high quality will again be extended to a new group of food products where at present purchase is by guesswork.

VI

CONCLUSIONS AND RECOMMENDATIONS

(A) *Conclusions*

It is possible, as a result of the analysis made in the preceding chapters, to draw certain definite conclusions with regard to the merchandising status of mergers in the packaged food products industry. It is also possible to determine those conditions under which the organization of and by which the operations of such mergers should be most effective. In addition certain definite recommendations will be advanced to packaged food products manufacturers. These conclusions and recommendations are the subject matter of Chapter VI.

1. *The mergers are succeeding in their immediate objective.* This objective is the securing of a larger per cent of total sales through the independent retail outlet. The method used is that of a retail salesforce or sales promotion force to call on the retailer and instruct him in more efficient retail selling methods. This method represents the first successful effort of packaged food products manufacturers to secure any measure of control of the channels of distribution. The merger of a number of companies with nationally established products has made this control possible by:

- (a) enabling the merger to refuse special price discounts to chain companies and yet maintain increasing sales. No chain store can be without such a varied line of famous nationally advertised products.
- (b) enabling the mergers to refuse to sell their line of products to middlemen who persistently refuse to stop using merger products as loss leaders. Few middlemen wish to lose the handling of so great an umber of nationally advertised products.
- (c) winning the loyalty of many of the independent retailers.

2. *The substitution of other brands for the merger brands still goes on but the amount of such substitution has decreased.* This desirable result, from a merger viewpoint, has been secured

by the interaction of the threat of taking away the privilege of selling the product, increased consumer acceptance secured through very effective merger advertising and sales promotion, and helping the retailer make more money by putting his efforts on building profitable sales turnover of the merger products.

3. *Considerable wholesaler cooperation has been secured.* This has been secured by the same methods as were used with the chain companies and independent retailers.

4. *The mergers have made progress toward the achieving of their ultimate merchandising objective.* The reader will recall that this is a threefold objective:

- (a) to enable each of the merger's products to secure a leading position in the industry.
- (b) to secure merchandising control of the entire channel of distribution from the manufacturer to the ultimate consumer in relation to competition and profits.
- (c) to secure maximum net sales, turnover and net profits.

Some of each merger's products already lead all other national advertised brands in volume of sales. All of the remaining merger products show sales gains. Control of the channels of distribution is not complete but many middlemen are now being satisfactorily handled by the methods described in conclusions 1, 2 and 3. Sales and profits are mounting faster than merchandising expenses and are in most instances increasing faster than the sales and profits of the independent food products manufacturers studied.

5. *Multiple-selling has proven successful.* There is a limit, however, to the number of products which can be sold. From four to six products gives the largest sales volume, except in the instance of Merger C which has redistricted its sales territories and concentrated on the better retail outlets. This merger has its retail salesforce use multiple-selling for the entire retail line of twenty-four products.²

¹ This position may be altered considerably if the Anti-Trust Laws are liberalized, as seems likely, to permit combinations. Such liberalization might greatly increase the number of food amalgamations and reduce merger control of channels of distribution.

² Multiple-selling is cumulative in effect and greater sales increase can reasonably be expected in the future.

6. *The weight of the evidence as to merchandising expenses and earning records is in favor of the mergers.* Amounts of merchandising expenses relative to dollar sales have been less and rates of enlargement have been less for the mergers than for the independent companies. In addition the mergers have shown actual reductions of merchandising expenses in certain years with increased sales accompanying the reductions. The earnings record is more impressive for the mergers than for the independent companies.

7. *Mergers C and D have greatly increased their advertising and selling appropriations* in spite of savings due to the use of multiple-selling and a redistribution of appropriations among the various advertising media. To date the full effect of these expenditures upon sales has not been felt due to the cumulative results of such expenditures. Frosted foods are being introduced slowly on a sectional basis and sales are not yet of a sufficient volume to give the economies of mass production and mass sales.

8. *There have been significant reductions in specific merchandising expenses.* These include newspaper and magazine advertising, selling and sales promotion, transportation, warehousing, storage, delivery, credit, collection and administrative expenses.

9. *Production has not been centralized.* To date the mergers have done nothing by way of consolidating the producing facilities of the former independent companies. Merger A has established sectional plants. Mergers B, C and D have made no changes in location of plants. Officials of these mergers stated, however, that some consolidations or sectional plants might be developed during the next period of business prosperity.

10. *There is no evidence that merger managements lack a knowledge of merchandising methods.*

11. *Mergers have led the independent companies which we have studied in the introduction of new products.* Moreover, a study of the industry as a whole shows that the mergers have led the industry in the introduction of significant products. By significant products we mean those which have outstanding sales possibilities because of their attractiveness to the ultimate consumer. Dated coffee, de-oxygenized coffee, quick setting

gelatins and frosted foods are good examples. The outstanding consumer benefit of these products is the guarantee of no deterioration between the time of manufacture and the time of consumption of the products.

12. The merger is one method by which a manufacturing company can become large enough to secure the merchandising advantages of large scale production. The mere fact that a merger has occurred, however, does not mean that economies and efficiencies will result. The ability of the managers to know how to organize the merger, that is, what companies to purchase, how payment of the companies should be made, and what new methods shall be used, is the deciding factor.

13. There are no evidences that mergers are attempting to fix prices such as to secure monopoly profits.

14. Our study indicates that the maximum merchandising advantages and economies procurable through a merger of food products manufacturers is possible under the following conditions:

- (a) The companies to be merged should have products which are nationally established with considerable degree of consumer acceptance.
- (b) The products should be sufficiently varied to give the merger products which meet a wide variety of food requirements.
- (c) The possibility should be present of reducing seasonal fluctuations in sales, of securing ample funds for the developing of new products and processes and of securing an adequate control of the channels of distribution such as to be able to refuse special price discounts to chain systems or other mass buying agencies.
- (d) There should be no merging of the selling and delivery functions.
- (e) There should be a salesforce or sales promotion force to contact the more efficient independent retailers.
- (f) The sales promotion and selling functions should be merged when contacting the middlemen.
- (g) Advertising should be grouped in terms of interrelated use or consumer association, with a planning expert responsible for each group. About six products seem to be the best number for each group.
- (h) The merchandising administrators and executives must be progressive and have great merchandising ability. This last factor is so obvious as to be unquestionable but many mergers have been organized without adequate provision for securing such administrators and executives. The degree of success of the merger depends in large measure upon these men.

Under the conditions set forth in conclusions (a) to (h) inclusive, the possible merchandising advantages to be secured from a merger in the industry are:

1. Economies
 - (a) Savings in selling expenses
 - (b) Savings in advertising expenses
 - (c) Savings in sales promotion expenses
 - (d) Savings in delivery, transportation, warehousing and storing expenses
 - (e) Savings in credit and collection expenses
 - (f) Savings in administrative and research expenses
2. More efficient operation
 - (a) More efficient selling
 - (1) better salesmen—larger average orders
 - (2) diversified line of products
 - (3) multiple-selling
 - (4) reduction in seasonal fluctuations
 - (5) redistricting territories
 - (6) reduction of waste time
 - (7) reduction in traveling expenses
 - (8) more efficient planning and executive direction
 - (b) More efficient advertising
 - (1) opportunity to try different methods and media as between products and groups of products
 - (2) planning experts for specific groups of products
 - (3) more opportunities for seasonal advertising due to diversity of the line
 - (4) multiple-advertising still primarily in the planning stage
 - (5) reductions in seasonal fluctuations in advertising
 - (6) redistricting the advertising effort
 - (7) more efficient planning and executive direction
 - (c) More efficient delivery, transportation, warehousing and storage
 - (1) truck distribution
 - (2) more pool car and car load shipments
 - (3) less cross shipments
 - (4) consolidation of warehouse space
 - (5) fewer district offices and warehouses
 - (d) Credit and collection expense
 - (1) consolidation of credit departments
 - (2) fewer losses. Retail and wholesale accounts are more selective
 - (3) more of the accounting can be done at the district offices—this lessens expensive rentals at the home office

- (e) Administrative Expense
 - (1) fewer high salaried non-productive officers
 - (2) this allows higher salaries for remaining officers and gives access to better ability
 - (3) specialization of management and executive work give greater efficiency
- 3. Research
 - (a) funds for developing new products and processes
 - (b) some of these processes can be rented or leased to other manufacturers
 - (c) opportunity to try out more merchandising methods
- 4. Easier to build new sales
 - (a) more varied consumer appeal—greater variety of products
 - (b) products are already established
 - (c) funds can be used for new projects such as frosted foods
 - (d) less dependence on seasonal fluctuations
- 5. Stronger Trade Position
 - (a) no special discounts to mass buying agencies
 - (b) ability to build more sales through the independent retailers
 - (c) less dependence on wholesalers

(B) *Recommendations*

Lower Prices. According to "Recent Economic Changes" published by the McGraw Hill Company, the cost of food is higher in the United States than in most nations. It is also higher relative to other expenditures. It is our conviction that the consumer pays higher prices relative to what he receives for foods than for many other products. Most brands of packaged food products have an elastic demand. For such products sales and profits can be considerably increased by lowering the price. Additional sales increases could be then secured through active sales effort. Whereas the trend in progressive industries such as the automobile, radio and amusement industries has been to lower the price, or what amounts to the same thing, increase the value, the food industry as a whole follows the old policy which the railroads, coal industry and others used in the eighties and nineties, namely, charging what the traffic will bear. When demand is brisk, food prices go up, when it is slack, food prices come down. It is usually argued that this is because the general level of prices is up or down. We suspect, however, that food prices in general are fixed monopolistically more often than they

are fixed competitively. If the price of two national advertised coffees are within a cent or two of agreement, does that necessarily mean that competition fixed the price? Everyone knows that the price of sirloin steak fluctuates without much reference to the price of beef on the hoof. Prices should be lowered and sales volume depended upon to give greater profits in the long run.

The Guarantee of Quality. At the present time, the consumer has no way of knowing just what the quality of a food product is, unless the consumer belongs to some of the consumers' cooperative groups, or unless the product carries a government inspection stamp. Our pure food laws protect us against harmful food products but they do not guarantee any quality whatsoever. Already consumers' leagues are investigating the quality of food products. As such investigations proceed, those food manufacturers which have quality products will have nothing to fear. The other manufacturers will do well to forestall adverse findings of such consumer groups by taking the initiative themselves in improving the quality of their products.

At present the names for grades of food products convey nothing to the consumer. One brand of olives is graded colossal, mammoth, large, choice and standard. Another brand of olives is labeled jumbo, large, colossal and mammoth. How many purchasers know that the best grade of Libby's peaches is labeled de luxe while the best grade of another leading brand of peaches is labeled choice? And what does the consumer know of the sugar content of the syrups in which these peaches are canned, or care? Tone tests tell us which tone quality is the best amongst various radios, experience teaches us which cars have the best quality. But in the food industry, the consumer is lost without the services of an expert food chemist or without the honesty and educational advertising of the manufacturer. Consumer ignorance is no excuse for the manufacturer. Already the consumers are getting organized to protect themselves against manufacturers who falsify or deliberately mislead in package and in advertising media. There are certain food products manufacturers who are doubtless selling quality products. Other manufacturers may be forced to standard by boycott or by government regulation.

Special Price Discounts. The battle for special price discounts has long been a factor in the packaged food products industry. It is interwoven with the problem of loss leaders as sucker bait, and the substitution of inferior quality goods. In so far as the mergers and other food products manufacturers can force the middlemen to stop such substitution the consumer benefits. In so far as the middlemen substitute products of equal quality to those of the national manufacturers, it is a fair competitive fight for survival. Merger C seems to point the most desirable way out, however, which is cooperation between the middleman and the manufacturer. The chain systems so far are the sworn enemies of cooperation. They persist whenever they can in insisting on a price discount more favorable than other buyers. The answer is that other groups are becoming large buyers too, and the mergers are strong enough to refuse special price discounts to anyone. The regular discounts for volume purchases maintain, however. We are convinced that the chains and voluntary chains stand primarily for price discounts. The mergers are the sworn enemies of the price discount and claim to be selling only quality products. Certainly the mergers have in a sense fought the battles of the whole food industry in defying the chains. As we see it, the merger against the chain and voluntary chain systems is now the basic factor in the industry. Judgment in all of these foregoing conclusions is based not upon ethics but on good business policy, selfish gain and good sportsmanship—quite a different sort of thing.

Possible Changes in Food Consumption. We see forces at work which may bring about considerable changes in food consumption and in methods of food merchandising. Television, if and when, it becomes practicable, may make it possible to sell by means of a television sales talk and demonstration. Either the home receiving sets or auditorium receiving set could conceivably be used. The home set would probably be more convenient for advertising and demonstrating to the consumer while the auditorium receiving set would enable groups of middlemen to listen. Orders could then be placed by wire, telephone or mail. Such a method would greatly reduce merchandising expenses.

At present air-conditioning equipment is available for home and office installation. If air conditioning becomes popular, it is conceivable that it will cause a shift in food consumption. It would be reasonable to expect that with comfortable temperatures indoors during summer months there will be an increase in the consumption of steaks, roasts, potatoes, etc., during the summer months and possibly a decrease in the summer consumption of ice cream. Packaged food products manufacturers should anticipate air conditioning by developing new products which could be merchandised successfully because of such a shift in consumption. Companies like Merger C and Company H would be in a more advantageous position than those which have no meats or meat products. Potatoes are still bought in bulk and could perhaps be graded according to quality. At present no large company sells potatoes and there is little knowledge of quality. The Ford laboratories are experimenting with potatoes and are finding that only the potato flesh near the skin has any marked nutritive value. The inner part of the potato contains the starch and is fattening. Perhaps this line of investigation if followed by food manufacturers would result in some new products. New artificial protein foods might be developed out of grain mixtures or grain and meat mixtures.

At present meals are being served while airplanes are en route and perhaps new food products can be developed in terms of the specific needs of such consumption. The problem of handling and preparing such meals has so far caused a limitation of choice to soups, sandwiches and light entrees which can be prepared before the plane departs. Airplane kitchens are a possibility.

New developments such as television, airplane driving and air conditioning suggest that a new type of cooperative merchandising or possibly new mergers could profitably be organized. Already a group of companies have organized a merger to install factory-made steel houses by machinery together with all furniture, fixtures, kitchen and plumbing equipment. A merger could perhaps be organized of food, cooking utensils, electric refrigerators, air conditioning, silver, china, pewter, linen and furniture manufacturing companies. The consumer would

then be taught to purchase all of these articles as a unit instead of as he does now, that is, with little reference to their interrelated use. Much groundwork has been done by women's magazines and by demonstrations and radio talks. Consumers are commencing to think of the interrelated use of these things. It seems possible and probable that mergers will take place which will sell all interrelated and independent products consistent with their utility and emotional factors. So far as we can see, a majority of the possible merchandising efficiencies of mergers could be secured for each merger, even though several different groups of middlemen were used. Certainly multiple-selling could be simplified and made more effective by selling such a "*picture*."

There is an evolutionary pressure at work whereby merchandising activities, organizations and methods are under compulsion to change in order to competitively survive. Changing environment and consumer buying habits compel the developing of new products and new uses for products. At the same time, the search for lower costs and increased profits, in keeping with these evolutionary changes, force a competitive developing of new organizations and new merchandising methods. New inventions are developed and made practical in order to secure the lower costs and the greater profits. The older types of merchandising organizations and management often become obsolete. They cannot see the opportunities to use new merchandising methods. A struggle develops between this management, usually represented by the vice-presidents and departmental executives, and the new staff planning management. Departmental management usually represents the traditional viewpoint whereas the staff management develops and uses new merchandising methods.

The new point of attack as developed by the line and staff management is aimed at developing consumer acceptance so that automatic selling can be used. Automatic selling increases turnover and lessens selling expenses since there is less need for personal salesmanship. The sale of food products by self-service methods, sales promotion instructions by use of the printed work and planned displays, the use of automatic vending

machines which Merger C is now experimenting with, are illustrative. Such developments are possible because of consumer and retailer acceptance of the merger's products.

The introduction of such new methods, organizations, dealer sales promotion helps and new products will in all probability constitute the new basis for competition in the packaged food products industry. The economies and increased profits which mergers have already secured, lead one to feel certain that other mergers of packaged food products companies will occur with a general upswing of industrial activity.

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